GULF OIL CANADA LIMITED
1977 ANNUAL REPORT

Gulf Oil Canada Limited 1977 Annual Report

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Annual Meeting

The Annual Meeting of Shareholders will be held in the Concert Hall of the Royal York Hotel, Toronto, at 2:00 p.m. E.S.T., Thursday, April 27, 1978.

Front Cover

It takes thousands of valves, big and small, to keep crude oil, natural gas and petroleum products flowing to 23 million Canadians from coast to coast. Eleven thousand Gulf Canada people, some of whom are pictured in this report, are doing their best to keep these valves open and provide Canadians with high quality petroleum products at the lowest possible cost.

Disponible en français sur demande.

Highlights of operations

Financial	1977	1976
	Millions of dollars	
Earnings for the year	$ 185.0	$ 165.9
Taxes and other government revenues generated	$ 793.6	$ 738.5
Total dividends declared	$ 49.2	$ 45.5
Shareholders' equity at year-end	$1,288.0	$1,152.1
Capital expenditures	$ 385.1	$ 260.2
Working capital	$ 538.4	$ 473.7
Long-term debt	$ 332.7	$ 167.1
Return on average capital employed	11.4%	11.9%
Per Share Data		
Earnings for the year	$ 4.07	$ 3.65
Total dividends declared	$ 1.08	$ 1.00
Shareholders' equity at year-end	$ 28.31	$ 25.32
Operating		
	Barrels per day	
Crude and natural gas liquids produced		
— gross	115,000	118,000
— net	76,000	81,000
Crude oil processed by and for the Company	339,000	295,000
Petroleum products sold	286,000	262,000
	Thousands of cubic feet per day	
Natural gas produced and sold		
— gross	417,000	440,000
— net	302,000	323,000
	Pounds per day	
Petrochemical sales	2,542,000	2,392,000

Report to the shareholders

Continuing record levels of spending by the oil and gas industry provided a vital injection into the otherwise slow Canadian economy during 1977 when over $5 billion was spent on exploration, development and production activities. In refining and marketing, low growth in the industrial sector and conservation on the part of consumers reduced the market potential for petroleum products and total energy in general.

During 1977 more oil was produced than was found with the result that Canada's crude oil reserve position declined for the eighth consecutive year. The picture was brighter for natural gas with discoveries exceeding production. Slow growth in domestic demand for natural gas, combined with export controls, resulted in gas production being below industry deliverability.

In the spring, the federal government announced that Canadian crude prices would rise by four dollars over two years in increments of one dollar every six months and that the price of natural gas would rise by an equivalent amount. This decision reaffirmed an essential aspect of the national energy strategy: to approach world price levels in Canada for crude oil and to move the price of gas to an appropriate competitive relationship with oil. However, two uncertainties still remain. First, since world energy prices are a moving target, dependent in part on the Organization of Petroleum Exporting Countries' decisions and the value of the Canadian dollar, the extent of the price increases that will be required in the future to meet world prices remains flexible. Moreover, Canada cannot afford to price its industries out of their important export markets by establishing domestic energy prices significantly above those of its major trading partner. This uncertainty could be reduced when the United States adopts a comprehensive energy policy.

In the meantime, however, the clear signal provided by the government's 1977 pricing decision allows the oil and gas industry to plan for reinvestment of the additional revenues in further exploration and development activities.

Last summer the long-awaited northern pipeline decision was made by the government of Canada after extensive consideration of the difficult trade-offs involved. Approval of the Alaska Highway route led to deferral of development of natural gas reserves in the Mackenzie Delta. Operators in the region, including Gulf Canada, were understandably disappointed when faced with an indefinite delay in bringing their Delta gas reserves into production. As a result of the pipeline decision, industry spending in the frontiers has been concentrated on further exploration rather than on developing known reserves. In particular, aggressive exploration programs were pursued in both the Beaufort Sea and in the Arctic Islands. In the offshore East Coast area, drilling activities remained suspended while a federal-provincial resource agreement was being negotiated. Although some progress has been made, it remains doubtful that exploration activities will resume this summer.

Activity in the conventional oil and gas regions of Western Canada intensified significantly. In this area, the stable royalty and tax structure, the reaffirmation of Canada's world-price policy, and the proximity to established transportation systems, helped to make 1977 a record year in terms of lease sales and drilling activity. The prospects for new oil development opportunities brightened with the reported successes in the West Pembina area of Alberta. The industry again added significantly to Canada's natural gas reserves, resulting in an increasing gas surplus in Alberta. Until new markets are found for this gas — either in Canada or the U.S. — industry's level of investment in exploration and production facilities is likely to drop.

Meanwhile, our industry is pursuing every opportunity to develop the tar sands and heavy oil reserves in Western Canada. Construction of the Syncrude Athabasca tar sands plant in northern Alberta is nearing completion and industry-government discussions have begun regarding another similar project. At the same time, development of in-situ techniques for recovery of heavy oil progressed to the point where commercial production proposals were under consideration by the end of the year.

Investments in the exploration, development and transportation of Canada's energy resources provided an important boost to the economies of the western provinces. As a result, demand for refined petroleum products remained strong, and supply and demand were in relative balance in the West during the past year. In the East, however, profit margins continued to be depressed, reflecting the combination of slow demand growth, excess refining capacity and severe price competition. Product prices were generally well below the limits set by the Anti-Inflation Board. While the current price competition provides a short-term benefit to consumers, in the longer term low prices and inadequate margins inhibit the additional investments necessary to maintain an efficient refining and marketing system, discourage energy conservation, and limit the substitution of Canadian natural gas for low-cost imported crude oil.

If Canada is to reduce its dependency on imported oil, new initiatives will be required to ensure that domestic natural gas is substituted for crude oil wherever possible. This substitution is currently limited by the low residual fuel oil prices in Eastern Canada resulting from excess refining capacity and product export restrictions.

During the past year a great deal of progress has been made in Canada in approaching a common understanding of the course to be followed to satisfy the future energy requirements of Canada. While important problems and uncertainties remain to be resolved, industry and governments are responding to the challenge not only to find and develop more energy supplies in Canada, but to reduce the growth in demand through more efficient use.

Consolidated net earnings for 1977 amounted to $185.0 million, or $4.07 per share, compared with $165.9 million, or $3.65 per share, for 1976.

For the first time the Annual Report is showing a breakdown of earnings by major business segments. Further details and comments on financial and operating results are given later in this report.

Since the last Annual Report, Dr. David S.R. Leighton, of Banff, and Kathleen M. Richardson, of Winnipeg, have been elected to the Board of Directors, succeeding Robert A. Butler and Beverley Matthews. Mr. Matthews, who served with distinction as a Director for over 22 years, was appointed Director Emeritus.

A realignment of responsibilities in the senior management of the Company became effective in October. Board Chairman and Chief Executive Officer, C.D. Shepard, and President and Chief Operating Officer, J.L. Stoik, now form a two-man Senior Executive who, together with four group heads, make up a six-man Executive Council responsible for directing and co-ordinating the Company's operations.

L.P. Blaser continues as Executive Vice-President. Former Senior Vice-President J.C. Phillips was appointed Executive Vice-President and W.P. Wilder, a former president of Wood Gundy Limited and, more recently Chairman of Canadian Arctic Gas Pipeline Limited, joined the Company as Executive Vice-President.

In recognition of the major importance to the Company of its resource operations in Western Canada, Calgary-based Vice-President of Exploration and Production, S.G.B. Pearson, moved to Toronto as Senior Vice-President. Subsequently, Exploration and Production became separate departments based in Calgary headed by R.H. Carlyle, Vice-President — Exploration, and E.M. Lakusta, Vice-President — Production.

Following 30 years of distinguished Company service, D.S. Lyall, Vice-President responsible for Treasury and Taxation, will retire April 30, 1978.

This Annual Report is more than a review of the past year; it is also a report of promise and confidence for the future of Gulf Canada. As in the past, our future success will depend in large measure on the energy and initiative of our employees and on the strong support of our shareholders, dealers and customers.

On behalf of the Board,

C.D. Shepard

Chairman of the Board.

J.L. Stoik

President.

Toronto, Ontario, March 29, 1978.

Financial review

Earnings

Earnings amounted to $185.0 million, or $4.07 per share, compared with $165.9 million, or $3.65 per share, for the year 1976.

Details of net revenues which rose $402.9 million to $2,356.5 million are shown in Table I. Expenses before taxes increased $381.7 million, due largely to the higher costs of purchased crude oil, products and merchandise, and increased exploration, operating and administrative expenses. Income taxes declined somewhat as a result of the depletion and frontier exploration allowances earned through the high-cost exploration programs carried out during the year. Total taxes, together with royalties and other amounts paid to or collected on behalf of governments, are shown in Table II.

Financial position

Funds provided from operations totalled $335.7 million — an increase of $58.4 million over 1976. Nevertheless, it was necessary to supplement these funds with new long-term financing of $180.6 million to cover heavy capital expenditures and additional investment in receivables and inventories, and at the same time maintain a strong cash position entering 1978. The major portion of the new financing involved the sale of $125 million U.S. $8\frac{3}{8}$ per cent 20-year notes and further drawdowns on the Syncrude loan from the government of Alberta. Table III provides details of the capital expenditures which totalled $385.1 million, compared with $260.2 million in 1976. Dividends declared during 1977 were $49.2 million, or $1.08 per share. Actual payments to shareholders amounted to $1.06 per share as the dividend for the last quarter is not paid until January 1 of the following year.

Segmented information

In Table IV the Company is providing for the first time a breakdown of earnings by major business segments. The results of the segments are shown as though each were a separate business activity and, therefore, reflect the effect of transactions between them. General administration and other common costs have been allocated to each of the segments on an appropriate and consistent basis and income taxes calculated in accordance with tax legislation applicable to each. Interest on long-term debt has not been allocated to the business segments and is shown separately.

The Natural Resources segment includes the exploration for, and production of crude oil, natural gas, natural gas liquids, participation in the Syncrude project, and Gulf Canada's interest in uranium and other mineral activities. The Refined Products and Chemicals segment includes the manufacture, distribution and sale of petroleum and chemical products, the business of the Company's wholly-owned subsidiary Superior Propane Limited, the operation of Company-owned pipelines and other transportation facilities, together with the merchandising activities of the Company's Marketing department. Investment and sundry income reflects primarily the after-tax earnings from short-term investments, dividends and gain on disposal of fixed assets.

Table I — Net Revenues

	1977	1976	1975
	(millions of dollars)		
Refined products	$1,650.8	$1,317.0	$1,169.7
Natural gas and natural gas liquids	353.9	316.5	275.2
Chemicals	136.8	125.7	101.8
Other operating revenues	180.6	164.9	154.5
Investment and sundry income	34.4	29.5	28.7
Total	$2,356.5	$1,953.6	$1,729.9

Table II — Taxes and Other Government Revenues

	1977	1976	1975
	(millions of dollars)		
From Gulf Canada			
Income taxes — current	$ 46.5	$ 84.7	$ 125.1
— deferred	64.2	37.6	18.6
Other taxes	124.8	111.1	98.1
Petroleum and natural gas lease payments	46.4	18.2	8.0
* Crown royalties, less incentive credits	163.9	140.3	116.3
	$ 445.8	$ 391.9	$ 366.1
Collected for governments			
Gasoline, fuel, excise and export taxes	$ 347.8	$ 346.6	$ 301.7
Total	$ 793.6	$ 738.5	$ 667.8

* Included in purchased crude oil, products and merchandise in the consolidated statement of earnings.

Table III — Expenditures on Property, Plant and Equipment

	1977	1976	1975
	(millions of dollars)		
Production	$ 121.0	$ 52.7	$ 27.1
Syncrude project	102.6	97.4	67.0
Transportation	1.2	14.1	7.0
Refining	113.0	57.4	27.6
Petrochemicals	1.9	2.8	5.6
Marketing	34.2	31.8	29.7
Other	11.2	4.0	1.1
Total	$ 385.1	$ 260.2	$ 165.1

Table IV — Major Business Segments

	Net earnings after tax		Capital employed at December 31	
	1977	1976	1977	1976
	(millions of dollars)			
Natural resources	$ 139.3	$ 127.2	$ 619.4	$ 472.3
Refined products and chemicals	41.1	29.4	1,154.4	954.8
Investment and sundry income	16.3	13.5	131.4	112.4
Interest on long-term debt	(11.7)	(4.2)	N/A	N/A
Total	$ 185.0	$ 165.9	$1,905.2	$1,539.5

Natural resources

Gulf Canada's natural resource operations include the exploration, development and production of crude oil and natural gas, the development of synthetic crude oil, the development of in-situ heavy oils, and the exploration and development of coal and uranium.

Natural resource spending has increased dramatically over the past five years, even without the massive Syncrude project. Excluding Syncrude, exploration and capital expenditures have increased about fivefold since 1971, exceeding $225 million in 1977, or about double 1976. With Syncrude expenditures in 1977 of $103 million, total upstream spending hit record levels of about $330 million.

As shown in Table IV in the financial review, after-tax earnings from natural resources in 1977 were $139.3 million compared with $127.2 million in 1976 and reflected price increases as well as lower income taxes resulting from higher levels of reinvestment, although volumes decreased and exploratory write-offs increased about 70 per cent. The high level of investment in the upsteam sector was directed to exploration and non-conventional oil projects, as well as to the delineation of new reserves and maintaining or optimizing production levels.

During 1977 Gulf Canada's natural resource operations continued to be highly exploration oriented, with exploration spending of $152 million double the 1976 level. Due to such factors as improved wellhead economics, fiscal stability and the need to evaluate land leases due to expire in the early 1980's, most of this acivity occurred in Western Canada. Gulf Canada was a particularly active driller, spudding almost 150 Company-operated development and exploratory wells and completing over 130 miles of hole, an increase of 40 per cent over 1976.

Petroleum exploration

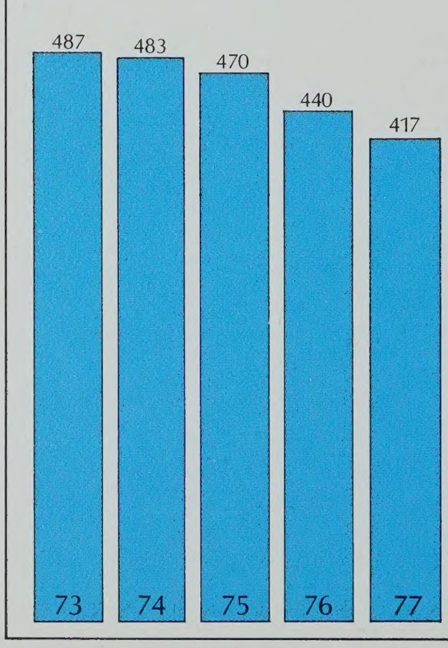
Gulf Canada has a broad land representation, which is a major asset in the Company's exploration future, with 113 million gross acres, over four times its net position of 25 million acres. The Company has maintained a strong position in Western Canada, and during the year strategic additions were made in British Columbia, the Alberta Foothills and in the West Pembina oil play. Gulf Canada is also well represented in the most prospective frontier areas such as the Mackenzie-Beaufort, Arctic Islands and the Atlantic Offshore.

Western Canada exploration

Higher spending in Western Canada during 1977 involved the acquisition of almost 387,000 net acres, and the drilling of 42 gross and 28 net exploratory wells. Industry activity in Alberta and British Columbia has increased significantly, and land sale bonuses have more than tripled, with high prices prevalent in prospective areas. The West Pembina oil play has rekindled interest in Alberta's oil prospects and Gulf Canada, in partnership with others, has been successful in acquiring several valuable properties in this area. Gulf Canada believes gas has excellent long-term potential and the Company, already successful in the Alberta foothills and deep plains, remains active in these areas as well as in British Columbia.

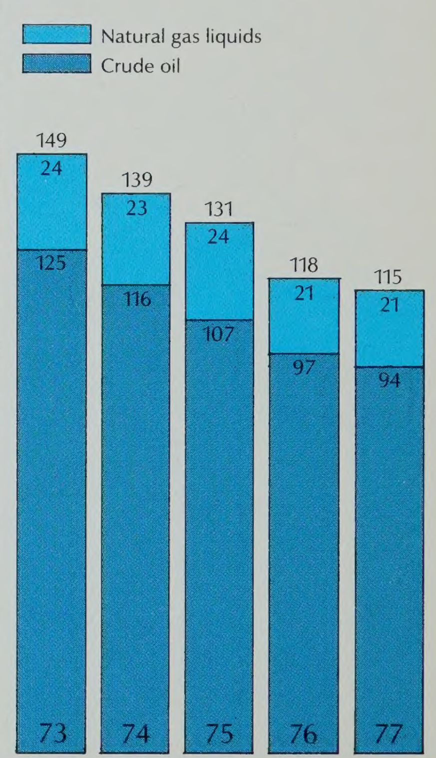
Gross natural gas produced and sold

Millions of cubic feet per day

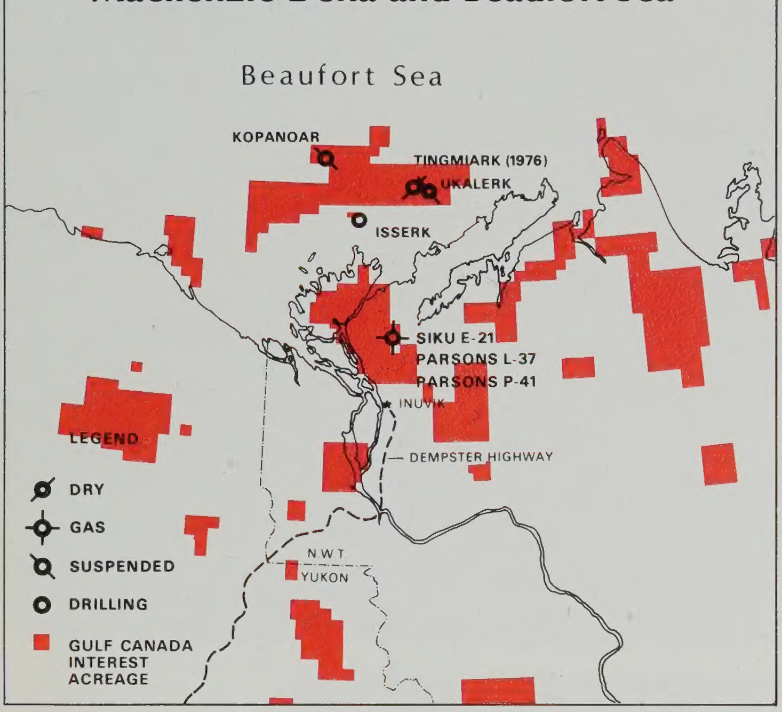


Gross crude oil and natural gas liquids produced

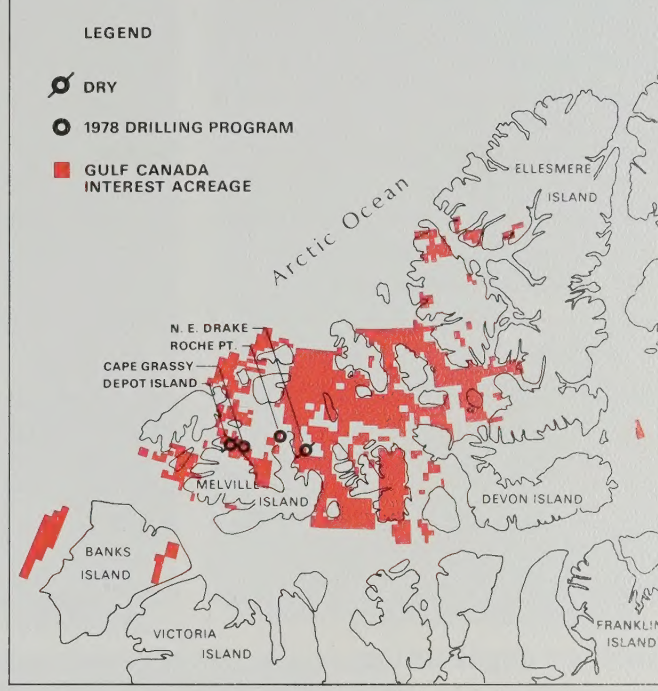
Thousands of barrels per day

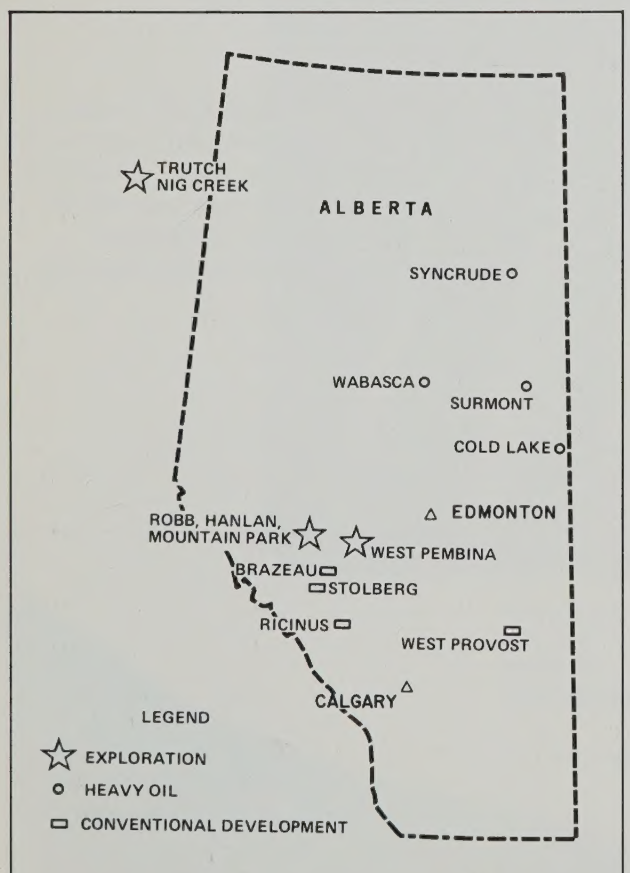


1977 Drilling
Mackenzie Delta and Beaufort Sea

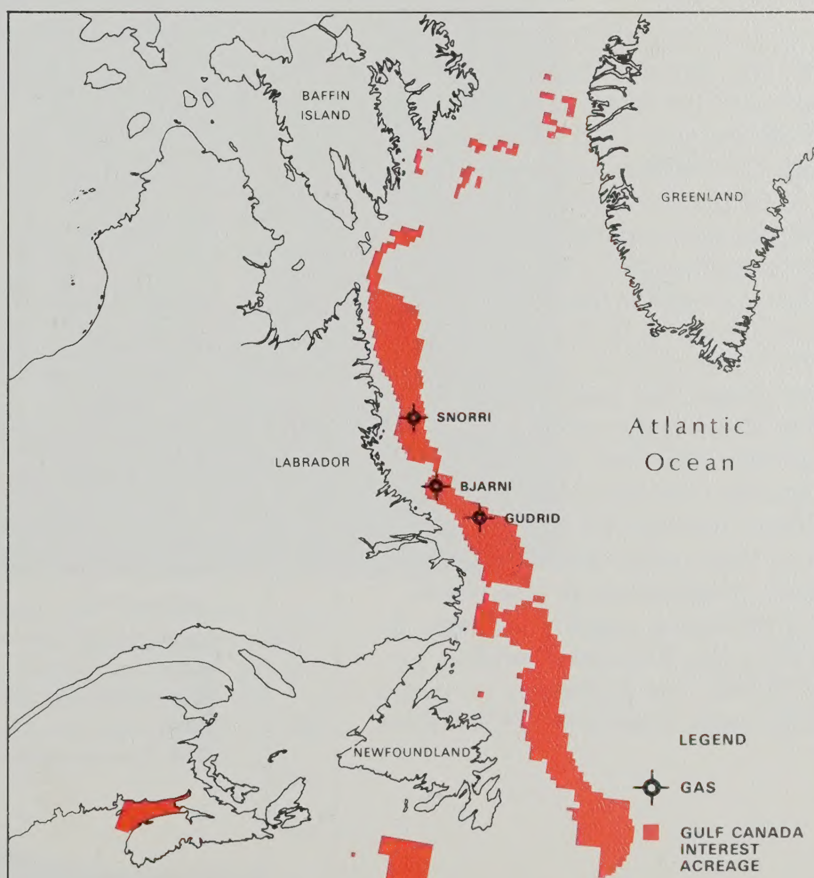


1977 Drilling
Arctic Islands





Major Areas of Current Activity



Eastern Canada Offshore and Greenland

The 42 gross interest wildcats drilled in Western Canada during the year resulted in 17 oil and gas discoveries, for a success ratio of over 40 per cent. In the Robb-Hanlan area, Gulf Canada has an interest in four gas wells and two delineation wells are currently underway. In British Columbia, major seismic programs over the past two years resulted in five wildcat wells being drilled in 1977, of which four were discoveries.

In the last quarter of 1977, Gulf Canada acquired from Alberta Energy Company Ltd. a large block of acreage in the Suffield area involving both a 250-mile seismographic and 26-well drilling commitment. Work has started on this program and one well was completed by year-end.

Frontier exploration

Beaufort Sea

The extension of Delta sediments into the Beaufort Sea has major potential for large accumulations of oil and gas. Gulf Canada and Gulf Oil Corporation share equally a 33.69 per cent interest in the 350,000-acre Hutchinson block surrounding the 1976 Tingmiark wildcat as well as the Ukalerk structure five miles to the southeast, which was drilled in 1977. Ukalerk was suspended below 7,500 feet after flowing gas on test at 16.5 million cubic feet per day. Gulf Canada's acreage position was further broadened by a farm-in from Hunt International Petroleum immediately to the north and offsetting existing acreage. By drilling the Kopanoar wildcat to 9,000 feet, the Company earned a 25 per cent interest in 129,000 acres and has a continuing option to earn 25 per cent in an additional 236,000 acres. Both Kopanoar and Ukalerk were drilled by specialized drill ships capable of operating in the ice-infested waters of the Beaufort Sea. Because of the short drilling season, neither project was completed and further drilling is planned in 1978. Gulf Canada also has a significant interest in 38 sections of pooled acreage in the shallower waters of the Beaufort Sea. The Company has a 21.75 per cent interest in a well being drilled at Isserk E-27, which is authorized as a 14,000-foot test located on an artificial earth island in about 40 feet of water.

Natural Resource Capital and Exploration Spending

	1977	1976
	(millions of dollars)	
Exploration		
Western Canada	$108	$ 34
Frontiers	44	42
Total	152	76
Conventional development	41	33
Non-conventional		
Tar sands		
Syncrude	103	97
In-situ heavy oil	36	7
Total	139	104
Total spending	$332	$213
Drilling activity	(gross wells)	
Exploration	50	40
Development	123	84
Total	173	124

Mackenzie Delta

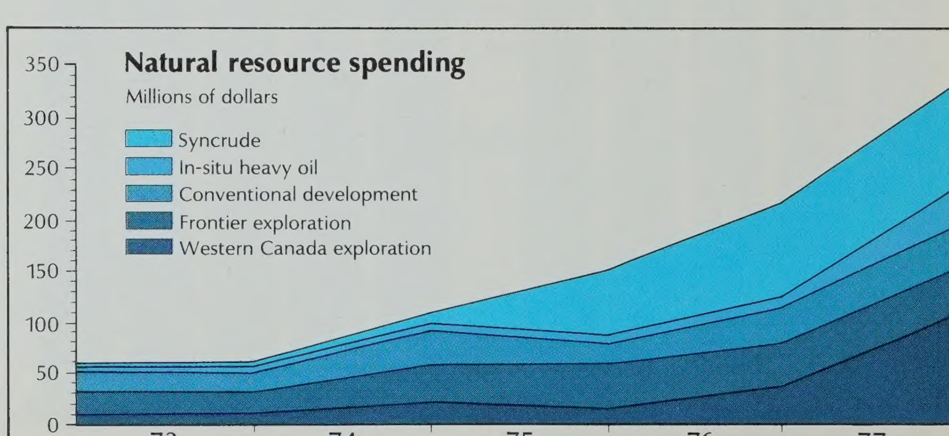
Gulf Canada has a 75 per cent interest in two trillion cubic feet of probable gas reserves at Parsons Lake and Ya-Ya, almost one-third of the total probable gas estimated for the Delta. The Company has spent well over $100 million to date in the area. At Parsons Lake, gas has been tested at 14 wells, including three successful delineation wells completed in 1977. In addition, light oil was discovered in 1976 at the Kamik D-48 test. The federal government decision with respect to the northern pipeline routing will defer the development of the Mackenzie Delta gas reserves for an indefinite period. Due to this decision and other uncertainties around land tenure and the fiscal regime, future activities will be geared only to lease maintenance until a Delta pipeline is ensured.

Arctic Islands

In this frontier area, Gulf Canada concluded negotiations in late 1976 to participate at 25 per cent in a farm-in of the holdings of Sun Oil Company Limited and Global Arctic Islands Limited. Over the next three to five years this program will earn the group an interest in 33 million gross acres with Gulf Canada earning 2.7 million net acres. In 1977 wells were abandoned at N.E. Drake Point and Depot Island, while two projects are currently drilling.

East Coast

On the East Coast, Gulf Canada has a working interest in approximately 60 million acres, of which over 40 million acres are off the coast of Labrador. Offshore Labrador appears to be the only



Clockwise from top: geologists, northern Saskatchewan; production engineer, Cold Lake, Alberta; gas plant engineer, Strachan, Alberta.

area of Canada's east coast with major oil and gas potential, and is geologically attractive with three indicated discoveries to date. However, in 1977 Gulf Canada and partners were faced with not only the jurisdictional dispute between the federal and Newfoundland governments, but also the severity of draft regulations proposed by Newfoundland. As a result, all drilling operations were suspended and only limited seismic and engineering feasibility studies were carried out.

Conventional production operations and development

In 1977 Gulf Canada's gross production of crude oil and natural gas liquids continued to decline and averaged 115,000 barrels daily, down three per cent from 1976. Part of this decrease reflected reduced industry demand through export restrictions consistent with the federal government's policy of helping to protect future Canadian requirements by eliminating all light and medium crude exports by 1981. Some of the decline in production was also due to equipment problems in major fields. An anticipated increase in total demand should result in Gulf Canada's crude oil production remaining at near current levels in 1978.

The decline in gross natural gas produced and sold was more severe than in oil, dropping some 23 million cubic feet per day or five per cent, and averaging 417 million cubic feet per day. This decrease reflected not only lower deliverability from older fields, but also the current oversupply situation in Western Canada. The Company's level of gas sales is sensitive to the current surplus in Alberta, which affects both the timing and extent of production from reserves either now on stream or waiting for markets.

Despite the continued decline of oil and gas volumes, after-tax realization improved because of higher prices at the wellhead. However, provincial royalties and income tax substantially reduced funds available for reinvestment. In December, 1977, the provincial and federal governments' share of the value received by Gulf Canada at the wellhead exceeded 77 per cent on production from crown leases.

Gross Natural Gas Sales

	1977	1976
(millions of cubic feet per day)		
Major Fields		
Strachan	68	70
Westerose South	68	69
Nevis Unit	18	26
Gilby Starrs	20	25
Rimbey Unit	18	20
Other	239	245
Total production	431	455
Less: from purchased raw gas	14	15
Produced and sold	417	440

Acreage Position as of December 31, 1977

	Gross	Net
(millions of acres)		
Western Canada	7.2	4.6
Northwest Territories	9.6	4.7
Beaufort Sea	1.9	.5
Arctic Islands	35.0	1.8
East Coast and Greenland	59.5	13.4
Total	113.2	25.0

Gross Crude and Natural Gas Liquids Production

	1977	1976
(thousands of barrels per day)		
Major fields		
South Swan Hills	22	24
Fenn Big Valley	13	13
Swan Hills	13	14
Redwater	6	6
Westerose	5	5
Other	35	35
Total	94	97
Plus natural gas liquids	21	21
Total production	115	118

The Company continued to take steps to arrest the decline of oil and gas production from older fields and to place previously uneconomic oil and gas reserves on stream. At Stolberg in the foothills, Gulf Canada is participating in a central dehydration station and a pipeline to an existing processing facility to handle this gas. Construction of new facilities is also underway at East Kaybob and Brazeau. At Strachan, a recently-completed large bore infill well has improved deliverability and additional compression is planned to further decrease the rate of decline. In the field of enhanced recovery, extension of the waterflood area and a miscible flood pilot test are scheduled for South Swan Hills, while water injection has begun at West Wilmar and West Provost to produce additional oil not recoverable through conventional methods.

Clockwise from top: geologist, Calgary; drilling superintendent, Swimming Point, Northwest Territories; drilling crew, near Cochrane, Alberta.

Non-conventional oil

Oil Sands

A major portion of Gulf Canada's recent spending has been directed towards its 16.75 per cent interest in the $2.1-billion Syncrude project, which will extract synthetic crude from the Athabasca tar sands. Plant capacity will be 125,000 barrels per day, and the present permit will allow production of one billion barrels over 25 years. This joint industry-government project is scheduled to be on stream by the summer of 1978 and at year-end 1977 was nearing completion.

In-situ Heavy Oil

Gulf Canada also has a 100 per cent interest in three other areas in Alberta where the sands are buried too deeply to permit mining recovery. At Cold Lake, Company leases cover a major heavy oil deposit estimated to contain two billion barrels of oil. Here, a pilot operation was started up in November using steam to heat the oil and reduce viscosity so that it will flow to the wellbore. At Wabasca, steam stimulation experiments were carried out and construction of a fireflood pilot test facility is now underway. In 1977 Gulf Canada spent $9 million on heavy oil testing operations and facilities, more than double the 1976 level.

The Company recognizes the importance of environmental planning in heavy oil development, and carried out studies involving broadly based field research in areas where operations are ongoing.

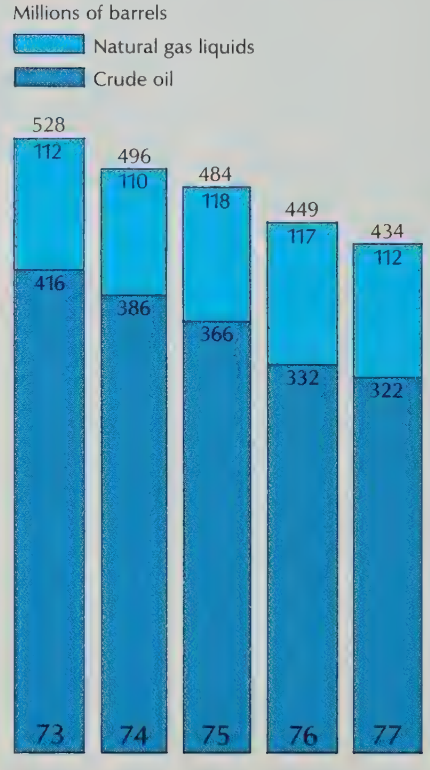
In late December Gulf Canada acquired a 100 per cent working interest from Numac Oil and Gas Ltd. in almost 119,000 acres overlying a prime heavy oil deposit in the Athabasca region. Located near the eastern edge of the oil sands deposit, the acreage is underlain by thick continuous sands, in places exceeding 100 feet, and has excellent porosity. It is clearly within the prime area of in-situ deposits in the Athabasca region and will give Gulf Canada a strategic land position in this long-term energy source.

Mineral exploration and development

Gulf Canada continued its program to find and develop uranium, base metal and coal deposits. The Company has a 5.1 per cent interest in a uranium mine and mill complex operated by Gulf Minerals Canada Limited at Rabbit Lake in northern Saskatchewan, and a ten per cent interest in prospective mineral lands in Saskatchewan. In addition, the Company has a 50 per cent interest in all other activities undertaken by Gulf Minerals. In 1977 the mine produced five million pounds of uranium oxide "yellow cake," well above design rate of 4.5 million pounds. It is anticipated that this higher production will be continued in 1978 to meet sales commitments.

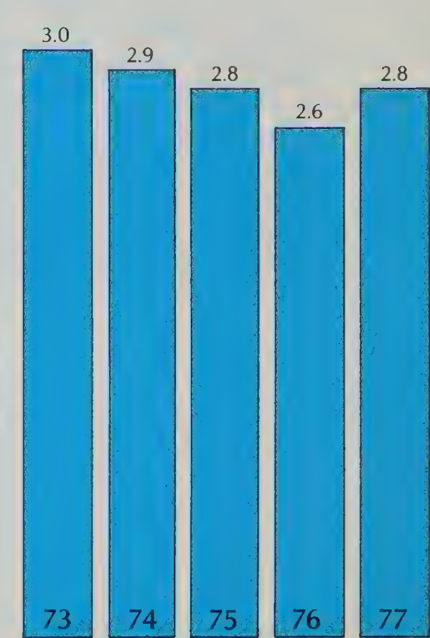
Estimated gross reserves conventional crude oil and natural gas liquids

Millions of barrels



Estimated gross reserves Western Canada natural gas

Trillions of cubic feet



Estimated Recoverable Reserves

	Gross(1) 1977	Gross(1) 1976	Net(2) 1977	Net(2) 1976
Proven reserves Western Canada				
Crude oil and natural gas liquids (millions of barrels)	434	449	296	316
Natural gas (4) (trillions of cubic feet)	2.8	2.6	2.1	2.0
Other reserves				
Syncrude (millions of barrels)	191	191	(3)	
Sulphur (millions of long tons)	4.2	4.5	4.0	4.2

(1) Gross reserves are before deducting royalties. The reserve estimates include only those volumes considered to be proven and which appear with reasonable certainty to be recoverable in the future from known oil and gas reservoirs under existing economic and operating conditions.

(2) Government royalty rates can vary depending on prices, production volumes, the timing of initial production and changes in legislation. Net reserves have been calculated on the basis of the royalty rates experienced in late 1977.

(3) Synthetic crude oil reserves resulting from Gulf Canada's interest in the Syncrude Canada Ltd. project are shown in gross barrels only. The Alberta government's share from the Syncrude project is 50 per cent of net profits, as defined in an agreement between the project participants and the government, with an option to convert to a 7.5 per cent gross royalty. On either basis, the Alberta government has the right to take its share in kind. These reserves will be extracted by mining and processing tar sands.

(4) Natural gas reserves in the Mackenzie Delta are not included as their recovery depends on approval and construction of a pipeline to transport the gas to markets. Gulf Canada's share of gross reserves in the Parsons Lake area of the Mackenzie Delta are estimated to be approximately 1.3 trillion cubic feet.

From top: nurse, Montreal East refinery; technician, Calgary pipe line terminal; bosun and first mate, *MV Gulf Gatineau*.

Refined products and chemicals

Net earnings from refined products and chemicals' operations amounted to $41.1 million, a return of only four per cent on average employed capital, compared with $29.4 million and three per cent in 1976. These earnings include some inventory holding gains related to the regulated price increases which were allowed 60 days following the rise in crude oil prices on January 1 and July 1. The inadequate returns from these operations results from severe market competition which continues to preclude full recovery of higher crude and operating costs.

Refining

All refineries, except Port Moody, recorded larger throughput in 1977. In total, a record 123.7 million barrels were processed compared to 107.6 million barrels in 1976. Point Tupper refinery, up 7.3 million barrels over 1976 as a result of higher sales, accounted for the largest increase.

The $210-million lube oil expansion project at Clarkson refinery was 65 per cent complete at year-end, with a peak labor force of over 2,000 onsite. The new facilities, scheduled to be on stream the latter part of 1978, will quadruple the refinery's production of lubricating oils and will produce 30 per cent of Canada's needs.

Computers for use in process control are being installed at Edmonton and Port Moody refineries. At Clarkson, a new sulphur plant is planned to improve the refinery's environmental acceptability.

Marketing

The market for petroleum products was intensely competitive throughout 1977, particularly in Eastern Canada because of its large surplus of refining capacity. Industry demand grew about two per cent, continuing the pattern started in 1975 and reflecting the effects of conservation and the generally depressed economy.

The results of downstream operations improved over the previous year but were still far short of an

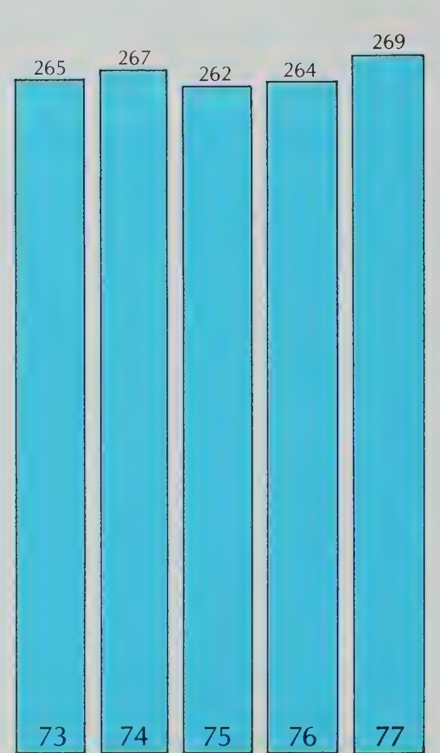
Refining Capacity

	Barrels per calendar day
Point Tupper, Nova Scotia	81,000
Montreal East, Quebec	77,300
Clarkson, Ontario	79,100
Moose Jaw, Saskatchewan*	13,300
Calgary, Alberta*	8,700
Edmonton, Alberta	74,500
Kamloops, British Columbia	7,700
Port Moody, British Columbia	37,200
Total	378,800

*Asphalt plants

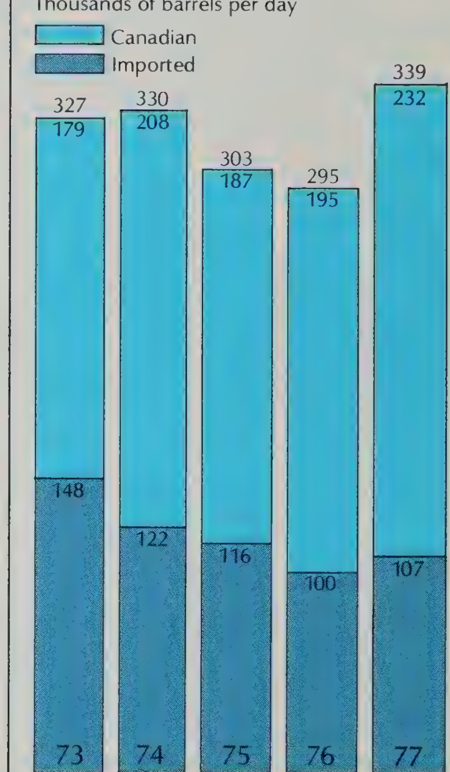
Crude oil and petroleum products transported

Millions of barrels



Crude oil processed by and for the Company

Thousands of barrels per day



Clockwise from top: tank car loader, Calgary asphalt plant; senior driver, Corner Brook, Newfoundland; process engineer, Clarkson refinery.

acceptable return on the capital employed. Primary emphasis in marketing is to achieve the lowest possible costs of operation in the price-depressed environment.

Demand for Futura unleaded gasoline exceeded that of the premium fuel in all areas of Canada because of the growing number of vehicles equipped with catalytic mufflers which require the use of the unleaded product. Distribution of unleaded gasoline has now been extended to all markets since this fuel is expected to represent a growing share of the total demand in the next few years.

Gulf Canada accelerated its program of phasing out smaller retail outlets and replacing them with a fewer number of large-volume facilities. Many of the newer outlets are of the self-serve design, some equipped with service bays. The Company also introduced a number of "Hurry-Lube" facilities where motor oil can be changed in a few minutes without leaving the car at the station for an extended period.

Superior Propane improved its profits in 1977 under difficult marketing conditions, including lower prices offered by competing fuels as a result of market oversupply. Sharply higher rail costs, together with the increased cost of producing propane, reduced demand and switched some consumers to alternative fuels.

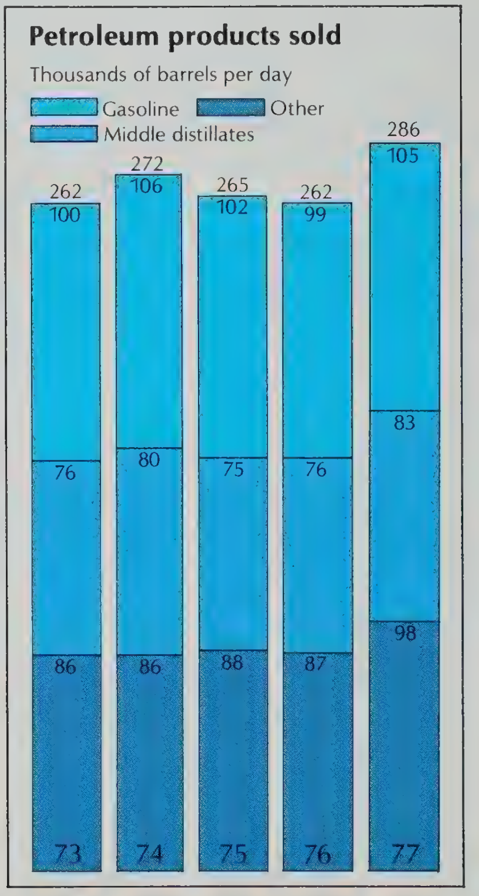
As government subsidies on other fuels are either reduced or eliminated, it is expected that propane will again become more competitive in the energy marketplace and that consumption will resume its traditional growth pattern.

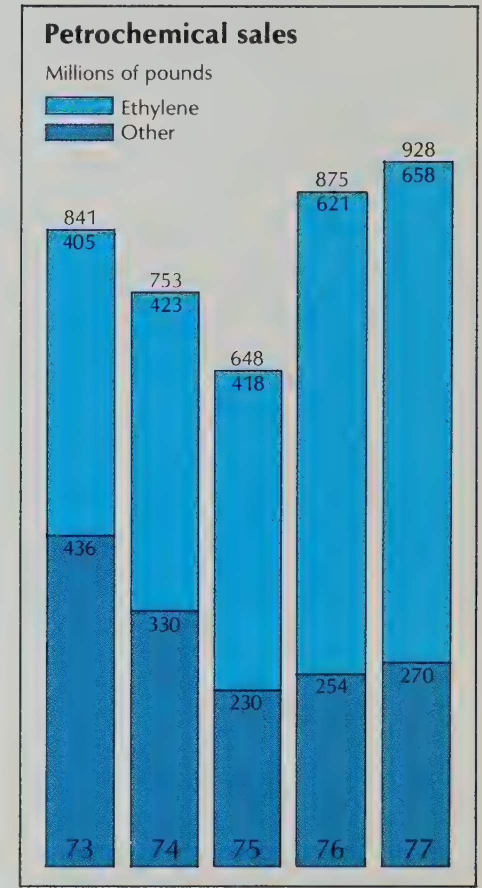
Chemicals

Olefins sales volumes improved in 1977 while aromatics and inorganic volumes decreased in the face of stiff competition.

In the olefins sector, Gulf Canada began supplying feedstocks in mid-year to the newly-built polypropylene plant of Hercules Canada at Varennes, Quebec.

In early 1977 the Company announced its decision, based on economic reasons, to shut down the 75-year-old calcium carbide and acetylene black plants at Shawinigan, Quebec, along with the supporting Bedford quarry. This decision was subsequently reconsidered in light of an overall program which included federal and provincial support, possible new markets for carbide, a revised schedule for environmental improvements, a re-negotiated hydro contract, and a revised labor contract designed to increase productivity. The continued operation of the plants will be based on a year-by-year review.





Clockwise from top: industrial marketing salesman, Ontario; research engineer, Sheridan Park, Ontario; Servico manager, Moncton, New Brunswick.

Other activities

Research and development

Several research projects relating to heavy oil recovery are currently underway in cooperation with the new energy resources section of the Production Department.

A hydrotreating pilot plant has been built to support the lube oil expansion program at Clarkson refinery. Closely resembling the Clarkson facility except that its capacity is only one-half a barrel per day, the plant is used for product formulation studies prior to start-up.

At the request of three governments, sulphur asphalt test roads were built in Ontario, Alberta and Michigan to further demonstrate the performance of Gulf Canada's sulphur asphalt process.

Realty

The final addition to the Company's regional office at Mount Pleasant and Davisville, Toronto, was completed in mid-December and employees, previously housed in several locations, are now occupying the new facilities.

Construction of Gulf Canada Square, the office and commercial complex in Calgary, was started in the latter half of 1977 and will be ready for occupancy in late 1979. The building, to cover an area of two city blocks, will include a 20-storey office tower to accommodate the Company's Calgary staff which is presently located in several buildings. The development will employ a unique energy system which stores and utilizes heat generated by the occupants, lighting and equipment, and will enable the complex to operate on less than half as much energy as other structures of conventional design.

During the year 51 houses were built and sold by Gulf Development of LaPrairie, Inc. in the first phase of the planned residential community project south of Montreal. In view of increasing construction costs and reduced development activity, emphasis is now being placed on selling the land to other companies for development.

Human resources

At the year's end the Company and its affiliates had 11,000 employees, 7,800 of them Gulf Canada staff. About 40 per cent of the total had marked ten or more years of continuous service, with 15 per cent having 20 years or more.

Gulf Canada recognizes the valuable investment in training and experience which is represented in each career employee. To preserve and enhance this investment, various human resource programs are carried out to develop and improve personal skills, maintain a high level of morale, and encourage long-term service. For example, during 1977 the first phase of a Company-wide program to provide women with equal job access was initiated. The program emphasizes better use of the skills of existing female employees and encourages qualified females to apply for careers with Gulf Canada.

One-year labor agreements providing for an eight per cent increase in 1977 were negotiated with the OCAW and all other bargaining groups. During the year 29 submissions requesting approval of wage and salary settlements were made to the Anti-Inflation Board, with 21 being cleared by year-end. Improvements were made to the group life insurance and retirement income plans, including increased payments to annuitants and to those on long-term disability.

As a participant in the tar sands project, Gulf Canada provided Syncrude Canada with eleven permanent staff and 21 employees on loan.

The President's Safety Incentive Award was won by 1,681 employees in 19 units across Canada, and 240 men and women were honored at 25-year service award dinners.

Corporate affairs and public relations

Regular communications with governments and key interest groups on a wide range of energy issues contributed to improved understanding in Company-government relations during 1977.

A continuous monitoring and analysis of external factors in the social, economic, political and competitive environments identified key issues for inclusion in the corporate planning process. Comprehensive studies of two current issues — energy conservation and Quebec's current position — were undertaken; the Company's approach on the latter subject was outlined in a submission to the Task Force on Canadian Unity.

Gulf Canada accelerated its program to promote the use of the French language in its Quebec operations. Additional courses in French were provided to 17 groups of employees, and the Company continued to ensure the availability of all corporate manuals and documents in French through its translation program.

The Public Relations Department continued to assist the executive and other departments with programs designed to improve the regard of various publics toward the Company and the industry.

As a new community relations program for the Kamloops refinery, the Company provided a "Gulf Community Caravan" to serve as a mobile headquarters for public-interest events within a 100-mile

radius of that city. Community relations programs were continued at Clarkson in connection with the current expansion, and at other major refineries and chemical plants.

Public communications during the year stressed the importance of energy conservation, forward-looking energy policies and the fact that taxes and royalties account for more than half the retail price of gasoline.

A series of corporate messages on televison emphasized the high costs, risks and long lead-times involved in frontier exploration and development projects that will be required to meet Canada's future energy needs.

To obtain employee opinion on a wide range of Company and industry-related subjects, an attitude survey was undertaken by the same independent research organization which had conducted the initial survey in 1973. The most recent ratings improved in most categories, and positive action is being directed to any areas requiring special attention. As with the earlier study, the results were conveyed to all employees through Company publications and its internal videotape network.

Accounting developments

The significant accounting policies of the Company are set out in Note 1 to the financial statements.

In recent years there has been an intense debate over the variations in the financial accounting and reporting practices followed by oil and gas producing companies. In the United States, the Financial Accounting Standards Board has moved to establish uniformity by issuing a statement, effective for 1979 reporting, which will require oil and gas companies to follow a form of successful efforts accounting similar in most respects to the current practices followed by Gulf Canada. If adopted in Canada, the effect on the Company's financial statements would not be significant.

The Research Committee of the Canadian Institute of Chartered Accountants recently issued an exposure draft regarding accounting for leases. The draft would require that a lease which transfers substantially all of the benefits and risks incident to the ownership of property should be accounted for as the acquisition of an asset and the incurrence of an obligation by the lessee. The Company leases various assets and certain of these would qualify as capital leases. Such capitalization would have little effect on earnings and the increase in net assets and liabilities would not be material.

Inflation and higher costs

The 1977 earnings represent a rate of return of 11.4 per cent on average capital employed, compared with 11.9 per cent in 1976 and 14.5 per cent in 1975. Generally speaking, these rates of return are based on historical dollar investments and do not provide a realistic return on the Company's investment when related to current dollars.

In this regard, the task continues within the business community, governments and the accounting profession to develop appropriate methods of accounting for inflation. We are concerned that the problems of the resource industries, and particularly those charged with providing future sources of energy, cannot be solved by any restatements of historical results. Indications are that replacement of current crude oil and natural gas reserves will involve extremely costly projects in remote frontier areas and the equally expensive development of synthetic or heavy oil reserves. Although changes in income tax regulations and provincial incentives have provided some additional funds for reinvestment in new energy supplies, governments continue to take an exceptionally high portion of increases in crude oil and natural gas prices.

We have carried out further work on current value accounting and updated the replacement cost information as required by Gulf Oil Corporation for reporting to the Securities and Exchange Commission. Unfortunately, there is presently no acceptable method of determining the replacement cost of oil and gas reserves which represent a major portion of Gulf Canada's assets. We do not believe that disclosure of incomplete information can be of use to shareholders or other users of the financial statements. The search for a satisfactory method to measure the impact of inflation on the current and future operations of resource companies is continuing.

Investment in inventories of crude oil, products and merchandise amounted to $483 million at December 31, 1977 — up $125 million during the year. This increase was equally divided between higher costs and larger volumes. The government is to be commended for the three per cent inventory allowance provided in the most recent budget which served to reduce 1977 taxes by $5.1 million and helped defray some of the higher costs in inventories. The balance of the higher costs in inventories, however, had to be provided from earnings or new borrowings, and there is further need to increase this allowance in line with the general inflation rate. If cost of goods sold had been calculated using the estimated replacement cost at the time when the sales were made, earnings before income taxes would have been reduced in the range of $50 million.

Gulf Oil Canada Limited

Consolidated statement of financial position

December 31, 1977

Assets

	1977	1976
Current:	(millions of dollars)	
Cash	$ 15.3	$ 3.1
Marketable securities, at cost (approximates market value)	158.8	131.1
Accounts receivable	519.4	455.8
Inventories of crude oil, products and merchandise	483.3	357.9
Materials, supplies and prepaid expenses	30.0	31.5
Total current assets	1,206.8	979.4
Investments, Long Term Receivables and Other Assets:		
Investments in associated and other companies (note 5)	20.5	15.5
Deposits, long term receivables and other assets (note 2)	49.7	41.6
	70.2	57.1
Property, Plant and Equipment at Cost less accumulated depreciation, depletion and amortization (note 6)	1,296.6	1,008.7
	$2,573.6	$2,045.2

(See accompanying notes to consolidated financial statements)

Liabilities

	1977	1976
	(millions of dollars)	
Current:		
Short term loans	$ 25.6	$ 25.9
Accounts payable and accrued liabilities (note 11)	534.6	404.7
Income and other taxes payable	67.1	50.8
Current portion of long term debt	28.8	13.0
Dividends payable	12.3	11.3
Total current liabilities	668.4	505.7
Long Term Debt and Other Long Term Liabilities (note 8)	332.7	167.1
Deferred Income Taxes	284.5	220.3

Shareholders' equity

	1977	1976
Capital stock (note 9)	281.0	280.9
Retained earnings	1,007.0	871.2
Total shareholders' equity	1,288.0	1,152.1
	$2,573.6	$2,045.2

On behalf of the Board:

A. Powis, Director

C.D. Shepard, Director

Auditors' Report

To the Shareholders of
Gulf Oil Canada Limited:

We have examined the consolidated statement of financial position of Gulf Oil Canada Limited as at December 31, 1977 and the consolidated statements of earnings and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company as at December 31, 1977 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied, except for the change in accounting referred to in Note 2, on a basis consistent with that of the preceding year.

Toronto, Canada,
February 7, 1978.

Clarkson, Gordon & Co.,
Chartered Accountants

Gulf Oil Canada Limited

Consolidated statements of earnings

Year ended December 31, 1977

Earnings

	1977	1976
	(millions of dollars)	
Revenues:		
Gross sales and other operating revenues	$4,235.2	$3,613.8
Deduct — Crude oil sales (note 1)	(1,565.3)	(1,343.1)
— Taxes collected for governments ..	(347.8)	(346.6)
Net sales and other operating revenues	2,322.1	1,924.1
Investment and sundry income	34.4	29.5
Net revenues	2,356.5	1,953.6
Expenses:		
Purchased crude oil, products and merchandise (note 1)	1,193.1	933.0
Operating expenses	227.5	201.1
Exploration, dryhole and other frontier area expenditures (note 4)	107.9	63.2
Selling, general and administrative expenses .	300.3	276.1
Depreciation, depletion and amortization (note 7)	85.8	73.2
Interest on long term debt	21.4	7.7
	1,936.0	1,554.3
Earnings before income and other taxes	420.5	399.3
Taxes		
Taxes other than taxes on income	124.8	111.1
Income taxes (includes deferred taxes of $64.2 in 1977, $37.6 in 1976) (note 3)	110.7	122.3
	235.5	233.4
Earnings for the year	$ 185.0	$ 165.9
Earnings per share	$ 4.07	$ 3.65

Retained earnings

	1977	1976
Balance, beginning of the year	$ 871.2	$ 750.8
Add earnings for the year	185.0	165.9
	1,056.2	916.7
Deduct dividends on common shares	49.2	45.5
Balance, end of the year	$1,007.0	$ 871.2

(See accompanying notes to consolidated financial statements)

Gulf Oil Canada Limited

Consolidated statement of changes in financial position

Year Ended December 31,1977

	1977	1976
	(millions of dollars)	
Source of Funds:		
From operations*	$ 335.7	$ 277.3
Sales of properties	15.7	10.6
Long term obligations	180.6	65.6
Sales of investments	1.2	.4
	533.2	353.9
Use of Funds:		
Additions to property, plant and equipment	385.1	260.2
Reduction in long term debt	30.6	16.6
Dividends	49.2	45.5
Other (net)	3.6	(2.2)
	468.5	320.1
Increase in working capital	$ 64.7	$ 33.8
Working capital changes:		
Increase in current assets —		
Cash and marketable securities	$ 39.9	$ 56.5
Accounts receivable	63.6	30.8
Inventories and materials	123.9	56.0
	227.4	143.3
Increase (decrease) in current liabilities —		
Accounts payable and other	126.1	116.0
Income and other taxes payable	16.3	(18.7)
Current portion of long term debt	20.3	12.2
	162.7	109.5
Increase in working capital	64.7	33.8
Working capital, beginning of the year	473.7	439.9
Working capital, end of the year	$ 538.4	$ 473.7

*Earnings for the year adjusted for charges or credits not affecting working capital.

(See accompanying notes to consolidated financial statements)

Gulf Oil Canada Limited

Notes to consolidated financial statements

December 31, 1977

1. Accounting Policies

Principles of consolidation —
The accounts of the company and all subsidiary companies are included in the financial statements.

Investments in joint venture companies owned 50% or less are accounted for on the equity basis.

U.S. dollar liabilities — (see note 2)
Liabilities in U.S. dollars are translated to Canadian dollars at year end rates of exchange. Gains or losses arising on translation of short term liabilities are included in earnings. Unrealized gains or losses arising on translation of long term liabilities are deferred and amortized over the term of the liabilities.

Inventories —
Inventories of crude oil, products and merchandise are valued generally at the lower of cost applied on a "first-in, first-out" basis or market value determined on the basis of replacement cost or net realizable value. Materials and supplies are valued at cost or lower, depending on the condition of the items.

Exploration and development costs —
Exploration expenditures, including geological and geophysical costs, annual rentals on exploratory acreage and dry hole costs are charged to expense. Costs of drilling successful wells in remote frontier areas where future production is not reasonably assured, together with other frontier area expenditures, are also charged to expense.

The initial acquisition costs of oil and gas properties together with the costs of drilling and equipping successful wells (other than wells in remote frontier areas) are capitalized.

Depreciation, depletion and amortization —
Capitalized costs of oil and gas properties and drilling and equipping wells are charged against earnings on the unit-of-production method using estimated recoverable oil and gas reserves. Charges are made against earnings for depreciation of investment in plant and equipment based on the estimated remaining useful lives of the assets using either the straight-line or the unit-of-production method, whichever is appropriate.

Income taxes —
Income tax expense is computed on the basis of revenues and expenses reflected in the statement of earnings. A portion of such taxes is not currently payable as tax legislation permits the deduction of certain costs and allowances prior to the time they are recorded as expenses for financial statement purposes. The amount not currently payable is included in the statement of financial position as deferred income taxes.

Investment tax credits are applied to reduce the cost of the related fixed assets.

Pensions —
Pension costs, which are determined by independent actuaries, are charged against earnings in the year premiums or funding requirements are payable. Prior service pension costs are being funded and charged to earnings over varying periods not exceeding fifteen years.

Crude oil transactions —
In addition to its own net production, the company purchases large volumes of crude oil from other producers and sells whatever crude oil is not required for its own refineries to other companies in the oil industry. It is the company's practice to offset such crude oil sales against oil purchases and thus exclude these transactions from both net revenues and costs.

Oil import compensation program —
Under the oil import compensation program the federal government compensates eligible importers with respect to petroleum imported for consumption in Canada, provided the importing company voluntarily maintains prices for products obtained from imported petroleum at the level suggested by the government. Compensation received or recoverable under this program is reflected as a reduction of the cost of purchased crude oil.

2. Accounting Change

With effect from January 1, 1977, the company has changed its method of accounting for gains and losses arising on translation of U.S. dollar long term liabilities to Canadian dollars. Such gains or losses are now deferred and amortized over the term of the liabilities rather than being reflected currently in earnings. If such unrealized gains or losses had been reflected currently in 1977, the Canadian dollar earnings for the year would have been reduced by $6.9 million. The 1976 earnings have not been restated as the exchange loss on translation was insignificant. This change is in line with the proposed accounting recommendations contained in an exposure draft on "Accounting for Translation of Foreign Currency Transactions" issued in June 1977 by the Accounting Research Committee of the Canadian Institute of Chartered Accountants.

3. Income Tax

Total income tax expense was $110.7 million in 1977 and $122.3 million in 1976 which represents an effective tax rate of 37.5 per cent and 42.4 per cent on pre-tax earnings for 1977 and 1976 respectively. The following schedule shows the main differences between the combined Federal and Provincial statutory tax rate and these effective rates:

	1977		1976	
	(millions of dollars)			
	Amount	% of Pre-tax earnings	Amount	% of Pre-tax earnings
Provision for income taxes at statutory rates	$141.9	48.0%	$137.7	47.8%
Add (deduct) the tax effect of:				
Inclusion in taxable income of crown royalties and other provincial payments	85.0	28.7	68.3	23.7
Resource allowance to partially offset inclusion of crown royalties	(63.1)	(21.4)	(49.8)	(17.3)
Depletion allowance earned by exploration and development expenditures	(33.3)	(11.3)	(29.1)	(10.1)
Frontier exploration allowance earned by frontier drilling expenditures	(9.4)	(3.0)		
Inventory allowance to partially offset the effect of inflation	(5.1)	(1.7)		
Other	(5.3)	(1.8)	(4.8)	(1.7)
Provision for income taxes reflected in the statement of earnings	$110.7	37.5%	$122.3	42.4%

4. Exploration, Dry Hole and Other Frontier Area Expenditures

Exploration, dry hole and other frontier area expenditures include the costs of drilling successful wells in remote frontier areas in the amount of $7.0 million in 1977 ($14.2 million in 1976).

5. Investment in Associated and Other Companies

	1977	1976
	(millions of dollars)	
At cost:		
With quoted market value (based on closing prices at the end of each year) 1977 — $35.4 million: 1976 — $36.0 million ...	$ 3.9	$ 4.2
Without quoted market value	.1	.1
	4.0	4.3
At equity:		
investment in joint venture companies, at cost plus equity in undistributed earnings	16.5	11.2
	$20.5	$15.5

6. Property, Plant and Equipment

	Range of depreciation rates	Gross investment at cost(1)	Accumulated depreciation, depletion and amortization	Net investment 1977	Net investment 1976
		(millions of dollars)			
Production ...	(3)	$ 694.7	(2) $ 330.3	$ 364.4	$ 278.6
Syncrude Project		278.0	—	278.0	180.4
Transportation .	4% to 10%	53.9	22.4	31.5	32.5
Refining and Petrochemicals	(4)	722.4	330.2	392.2	308.2
Marketing	2.5% to 10%	354.2	149.0	205.2	193.1
Other	2.5% to 10%	38.1	12.8	25.3	15.9
		$2,141.3	$ 844.7	$1,296.6	$1,008.7

(1) Additions during the year have been reduced by investment tax credits of $10.2 million ($9.4 million in 1976).
(2) Includes accumulated depletion of $46.7 million with respect to the acquisition cost of productive properties.
(3) Unit of production.
(4) Processing units on unit of production, other items from 2.5% to 10%.

7. Depreciation, Depletion and Amortization

Depreciation, depletion and amortization in the statement of earnings consists of:

	1977	1976
	(millions of dollars)	
Depreciation of plant and equipment	$66.4	$60.5
Depletion of acquisition costs of productive properties	2.5	2.6
Amortization of non-producing properties, drilling costs and other intangible assets	16.9	10.1
	$85.8	$73.2

8. Long Term Debt and Other Long Term Liabilities

	Maturity	Amount
		(million of dollars)
Debentures (1)		
5¾%, Series B	1982	$ 3.3
5¼%, Series C (2)	1982	8.0
7⅜%, Series D	1978	10.0
7⅜%, Series E	1988	33.5
8½%	1989	3.9
8½%	1990	3.5
8⅜% (2)	1997	136.7
8⅛% loan re Syncrude (3)		97.9
Interest free loans (4)		44.7
Other long term obligations	varying dates	20.0
		361.5
Less instalments due within one year included in current liabilities		28.8
		$332.7

(1) All debenture issues except Series D require sinking fund payments by the companies.

(2) Payable in U.S. dollars. Amount outstanding in U.S. dollars:
5¼% Series C 1982 $7.3 million
8⅜% Notes 1997 $125.0 million

(3) The Syncrude loan from the Government of Alberta is evidenced by an 8⅛% Convertible Debenture which, at the Government's option, may be converted into a portion of the company's equity interest in the Syncrude Project on the basis of the amount of the loan converted relative to the total cost of the project. In the event that the conversion option is not exercised, the loan is repayable in ten equal annual instalments commencing no earlier than 1984.

(4) These interest free loans, originally borrowed under the terms of an agreement for exploration and development of certain properties, are repayable in annual instalments over the years 1978 — $17.4 million and 1979 — $27.3 million.

Approximate annual instalments of long term debt due in the next five years are (millions of dollars):
1978 — $28.8, 1979 — $35.2,
1980 — $8.2, 1981 — $8.4,
1982 — $8.2

9. Capital Stock

Shares without nominal or par value:

Authorized — 68,000,000
Issued — 45,497,406

The company's incentive stock option plan provides for the granting of options to purchase common shares of the company at the market price on the day when the options are granted. Under the plan, options become exercisable after one year's continuous employment immediately following the date the options are granted and are for a period of ten years.

During 1977 no options were granted and options on 4,500 shares were exercised for an aggregate cash consideration of $84,094. At December 31, 1977, no options were outstanding.

10. Pension Plans

The company has pension plans covering substantially all employees. The contributions by employees, together with those made by the company, are deposited with insurance companies and/or trustees according to the terms of the plans. Pensions at retirement are related to remuneration and years of service. The amounts charged to earnings (including amounts paid to government pension plans and amortization of prior service costs) were $13.9 million during 1977 and $10.0 million during 1976.

The plans were amended in 1977, with a further amendment effective January 1, 1978 to provide for increases in retirement benefits. The effective unfunded prior service pension costs at December 31, 1977, after giving effect to the 1978 amendments, were approximately $60.6 million of which approximately $54.7 million represents the excess of the actuarially computed value of vested benefits over the assets of the plans. These will be funded and charged to earnings over periods up to twelve years.

11. Amounts Owing to and from Affiliated Companies

Amounts owing to and from affiliated companies, all of which arose in the normal course of business, were $152.4 million and $7.8 million, respectively at December 31, 1977 ($105.3 million and $5.1 million, respectively at December 31, 1976).

12. Commitments and Contingent Liabilities

Syncrude Project — The Company has a 16.75 per cent interest in a project (operated by Syncrude Canada Ltd.) for the extraction of oil from Athabasca oil sands leases in the Province of Alberta. Total project costs for the construction of the 125,000 barrel-a-day plant, expected to be completed in 1978, are estimated to approximate $2.1 billion. Based on these estimated project costs, the company's interest involves a commitment of $352.0 million, of which approximately $287.9 million had been expended to December 31, 1977. Part of the company's commitment is being financed through a convertible loan of $100 million from the Government of Alberta.

Through options held by the Government of Alberta in connection with the above loan and options held by the Alberta Energy Company, the company's interest in the project could be reduced to about nine per cent with a corresponding reduction in its investment. In the event of abandonment of the Syncrude Project either prior to the completion of the construction phase or after completion, the company together with the other Syncrude participants will incur certain further liabilities and commitments.

Clarkson Lube Plant — The company is engaged in the replacement and modernization of the lubricating oil facilities at Clarkson Refinery. The total cost of this new facility is estimated at $210.0 million of which approximately $152.7 million had been spent to December 31, 1977.

The company has other commitments in the ordinary course of business (for the acquisition or construction of properties and the purchase of materials and services) and contingent liabilities under various guarantees, all of which are not significant in relation to net assets.

Rentals under long term leases for real property and other facilities approximate $20 million annually. Under certain of these long term leases, the company has the option to purchase the leased assets and is obligated to make advances from time to time which will be applied against the purchase price if the option is exercised. It is estimated that such advances will aggregate approximately $20.2 million over the terms of the lease agreements (which expire in 1982) of which $12.1 million have been advanced to December 31, 1977. During the next five years such advances will aggregate approximately $8.1 million of which $1.5 million will be payable in 1978.

13. Remuneration of Directors and Officers

The aggregate remuneration in 1977 of the company's twelve directors as directors was $83,415. Three directors were also officers of the company during the same period. The aggregate remuneration during 1977 of the company's officers (including eleven past officers) as officers was $2,132,047. No directors or officers of the company received any remuneration from a subsidiary of the company.

14. Anti-Inflation Program

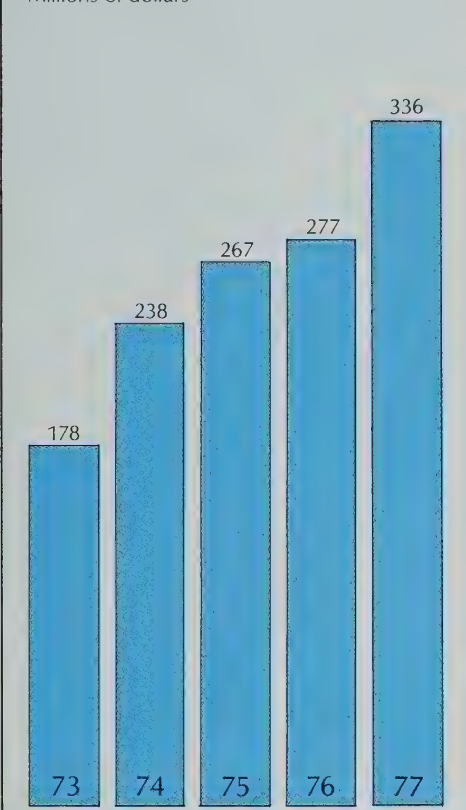
Under the federal government's Anti-Inflation Act (in force until December 31, 1978, except for legislation regarding shareholder dividends which terminates October 13, 1978), the company is subject to mandatory compliance with legislation which controls prices, profit margins (excluding crude oil and natural gas operations which are controlled under the Petroleum Administration Act), employee compensation and shareholder dividends. Management is of the opinion that the company is in compliance with the requirements of the anti-inflation legislation.

Five year financial summary

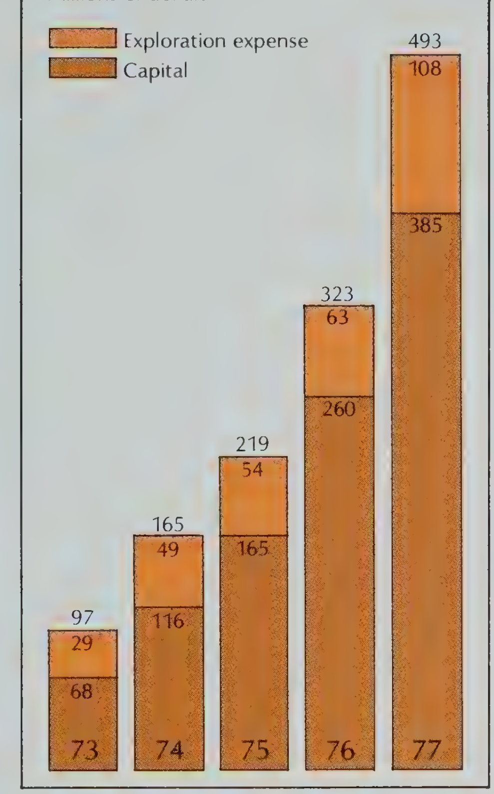
Amounts, except for unit statistics, expressed in millions of dollars

	1977	1976	1975	1974	1973
Balance Sheet					
Current assets	$1,206.8	$ 979.4	$ 836.1	$ 825.2	$ 595.2
Deduct: Current liabilities	668.4	505.7	396.2	467.5	243.7
Working capital	538.4	473.7	439.9	357.7	351.5
Property, plant and equipment — net	1,296.6	1,008.7	830.3	746.1	714.2
Investments, long term receivables and other assets	70.2	57.1	60.1	59.9	57.9
Capital employed	1,905.2	1,539.5	1,330.3	1,163.7	1,123.6
Deduct: Long term debt	332.7	167.1	115.9	102.6	196.0
Deferred income taxes	284.5	220.3	182.7	162.8	153.9
Shareholders' equity	$1,288.0	$1,152.1	$1,031.7	$ 898.3	$ 773.7
Per share	$ 28.31	$ 25.32	$ 22.68	$ 19.75	$ 17.01
Capital Expenditures					
Property, plant and equipment	$ 385.1	$ 260.2	$ 165.1	$ 115.9	$ 67.6
Earnings					
Net revenues	$2,356.5	$1,953.6	$1,729.9	$1,516.2	$1,060.0
Deduct:					
Exploration and dry hole costs	107.9	63.2	53.9	48.9	29.1
Depreciation, depletion and amortization	85.8	73.2	71.0	70.4	72.3
Purchases and other expenses	1,742.3	1,417.9	1,186.6	1,030.5	730.5
	1,936.0	1,554.3	1,311.5	1,149.8	831.9
Earnings before taxes	420.5	399.3	418.4	366.4	228.1
Taxes:					
Taxes, other than income taxes	124.8	111.1	98.1	80.9	68.0
Income taxes	110.7	122.3	143.7	124.5	59.9
	235.5	233.4	241.8	205.4	127.9
Earnings for the year	$ 185.0	$ 165.9	$ 176.6	$ 161.0	$ 100.2
Rate of Return (per cent)					
On average capital employed	11.4	11.9	14.5	14.7	10.0
On average shareholders' equity	15.2	15.2	18.3	19.3	13.6
Funds from Operations	$ 335.7	$ 277.3	$ 266.8	$ 237.8	$ 178.1
Dividends Declared	$ 49.2	$ 45.5	$ 43.2	$ 36.4	$ 31.8
Per Share					
Earnings for the year	$ 4.07	$ 3.65	$ 3.88	$ 3.54	$ 2.20
Cash dividends	$ 1.08	$ 1.00	$ .95	$ .80	$ .70

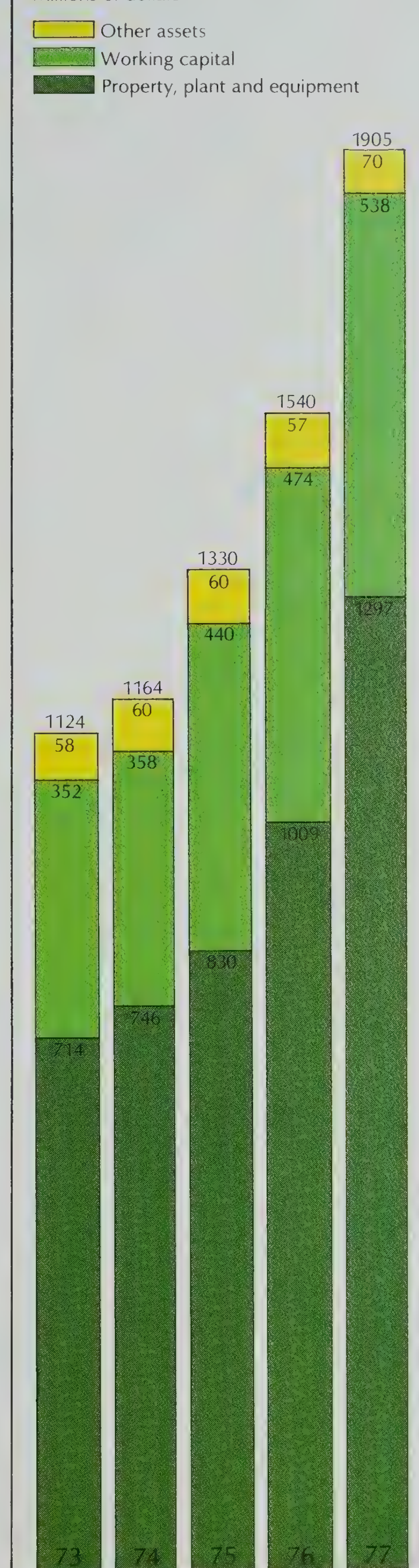
Funds from operations
Millions of dollars



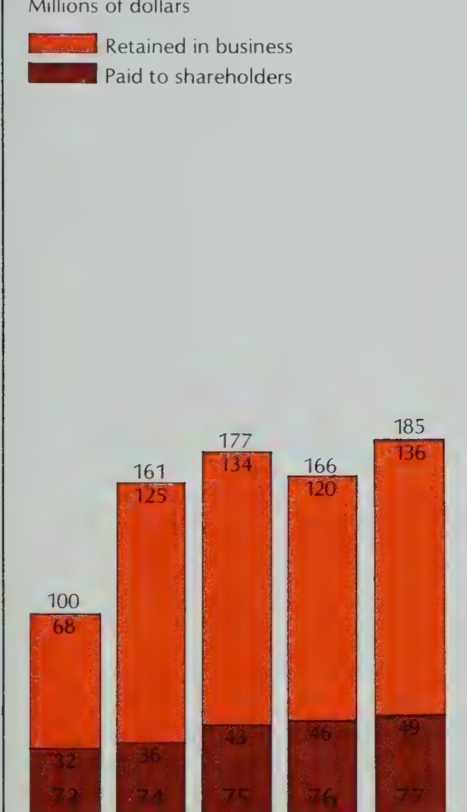
Capital and exploration expenditures
Millions of dollars



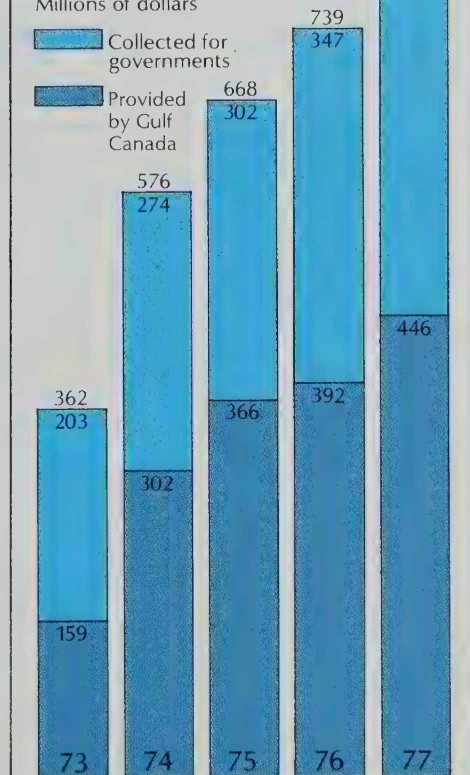
Capital employed
Millions of dollars



Net earnings
Millions of dollars



Taxes and other government revenues
Millions of dollars



Five year summary of operations

	1977	1976	1975	1974	1973
Crude and Natural Gas Liquids Produced					
(thousands of barrels)					
Gross	42,030	43,310	47,657	50,784	54,476
Net	27,841	29,546	33,125	36,210	45,613
Per day — gross	115	118	131	139	149
— net	76	81	91	99	125
Crude Oil Processed by and for the Company					
(thousands of barrels)					
Total	123,704	108,107	110,750	120,623	119,413
Per day	339	295	303	330	327
Petroleum Products Sold					
(thousands of barrels)					
Total	104,281	96,022	96,904	99,426	95,550
Per day	286	262	265	272	262
Natural Gas Produced and Sold					
(Millions of cubic feet)					
Gross	152,063	161,071	171,603	176,473	177,789
Net	110,152	118,083	134,779	148,011	158,510
Per day — gross	417	440	470	483	487
— net	302	323	369	406	434
Petrochemical Sales					
(thousands of pounds)					
Total	927,769	875,322	647,624	752,827	841,204
Per day	2,542	2,392	1,774	2,063	2,305
Sulphur Sales					
(long tons)					
Total	343,999	254,525	202,741	272,985	203,079
Per day	942	695	556	748	556
Net Wells (Bore Holes) Capable of Producing at Year-End	1,499	1,437	1,400	1,400	1,415
Net Wells Drilled	108	59	45	37	50
Net Acreage under Lease, Reservation and Option *(thousands of acres)*	25,039	25,561	26,077	24,631	25,668

Top: oil spill crew, Sarnia, Ontario; lower: biologists, Wabasca, Alberta.

In the area of environmental protection, the Company spent approximately $23 million during 1977, of which about 60 per cent was related to exploration and production activities. The largest portion of an estimated expenditure of $25 million for 1978 will again be directed to drilling operations. Gulf Canada employs the equal of 40 full-time personnel in environmental affairs, with over 200 employees being involved in the oil spill contingency activity.

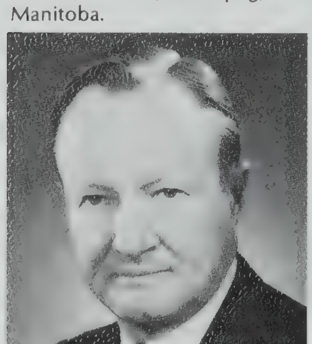
Directors

J. Peter Gordon

Chairman and Chief Executive Officer, The Steel Company of Canada, Limited, Toronto, Ontario. Director: The International Nickel Company of Canada Limited; Bank of Montreal; Canadian General Electric Company Limited; Sun Life Assurance Company of Canada.

Kathleen M. Richardson

Director, James Richardson & Sons, Limited, Winnipeg, Manitoba.



W.H. Young

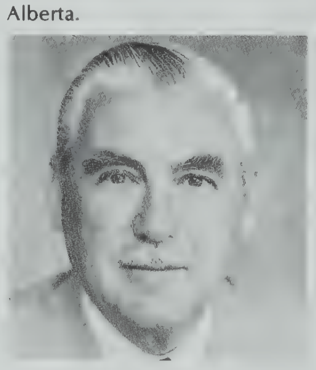
President, The Hamilton Group Limited, Burlington, Ontario. Director: The Steel Company of Canada, Limited; Gore Mutual Insurance Company; National Trust Company Limited; Drummond, McCall & Co. Ltd.

L.P. Blaser

Executive Vice-President, Gulf Oil Canada Limited, Toronto, Ontario. President: Alberta Products Pipeline. Director: Interprovincial Pipe Line Limited; Trans Mountain Pipe Line Company Limited.

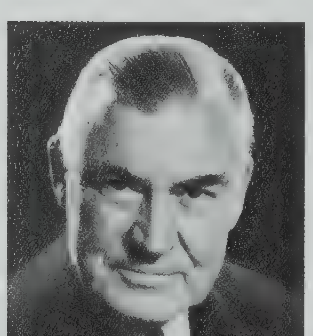
D.S.R. Leighton

Director, Banff Centre, Banff, Alberta.



R.G. Rogers

Chairman of the Board and Chief Executive Officer, Crown Zellerbach Canada Limited, Vancouver, British Columbia. Director: Canadian Imperial Bank of Commerce; Genstar Limited; Hilton Canada Limited.



Beverley Matthews, Q.C.

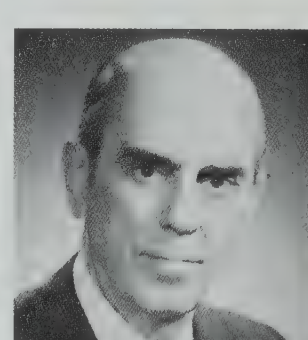
Director Emeritus, Toronto, Ontario.

E.H. Crawford

President, The Canada Life Assurance Company, Toronto, Ontario. Director: Canadian Imperial Bank of Commerce; Moore Corporation Limited; Canadian Enterprise Development Corporation Limited.

Gérard Plourde

Chairman and Chief Executive Officer, UAP Inc., Montreal, Quebec. Vice-President and Director: Alliance Compagnie Mutuelle d'assurance-vie; The Toronto-Dominion Bank. Director: Bell Canada; Editions du Renouveau Pedagogique Inc.; Northern Telecom Ltd.; The Molson Companies Limited; Rolland Paper Company Limited; Steinberg's Limited.



C.D. Shepard

Chairman of the Board and Chief Executive Officer, Gulf Oil Canada Limited, Toronto, Ontario. Director: The Toronto-Dominion Bank.

E.F. Crease

Chairman, Alfred J. Bell & Grant Limited, Halifax, Nova Scotia. Director: Canada Permanent Trust Company.

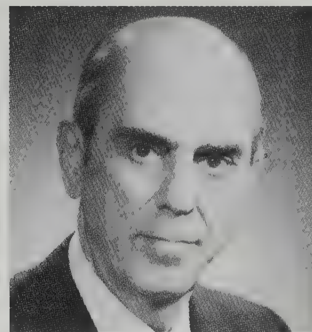
Alfred Powis

Chairman of the Board and President, Noranda Mines Limited, Toronto, Ontario. Director: British Columbia Forest Products Limited; Canadian Imperial Bank of Commerce; Placer Development Limited; Simpsons Limited; Sun Life Assurance Company of Canada.

J.L. Stoik

President and Chief Operating Officer, Gulf Oil Canada Limited, Toronto, Ontario. Member: Business and Industry Advisory Committee (BIAC) on Energy and Raw Materials to the Organization for Economic Co-operation and Development.

Officers



C.D. Shepard, Chairman of the Board and Chief Executive Officer.

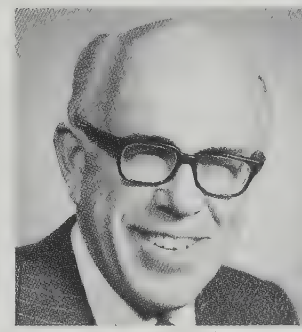
J.L. Stoik, President and Chief Operating Officer.

L.P Blaser, Executive Vice-President.

J.C. Phillips, Q.C., Executive Vice-President.

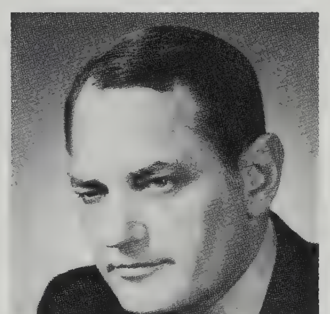
W.P. Wilder, Executive Vice-President.

S.G.B. Pearson, Senior Vice-President.



R.C. Beal, Vice-President responsible for New Business Development and Chemicals.

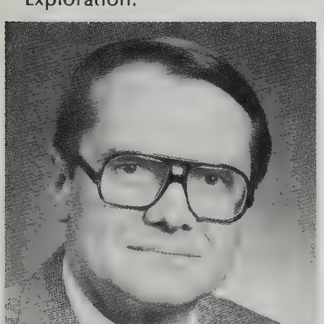
R.H. Carlyle, Calgary, Vice-President responsible for Exploration.



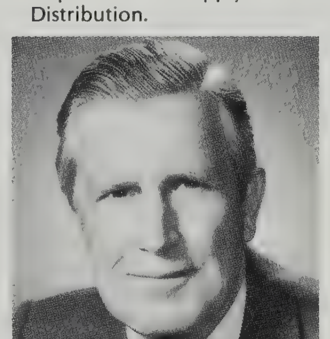
J.D. DeGrandis, Vice-President responsible for Supply and Distribution.

W.H. Griffin, Vice-President responsible for Marketing.

R.E. Harris, Vice-President responsible for Human Resources and Realty.



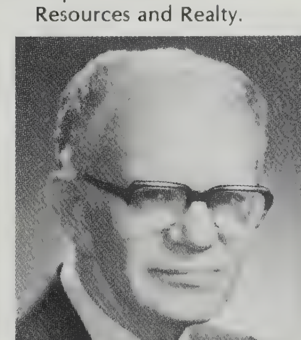
E.M. Lakusta, Calgary, Vice-President responsible for Production.



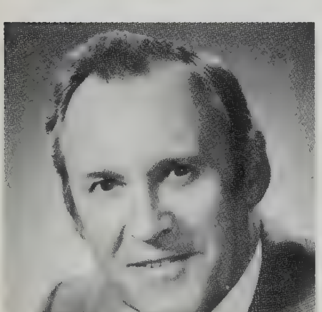
***D.S. Lyall**, Vice-President responsible for Treasury and Taxation.

*Retiring April 30, 1978

S.K. McWalter, Vice-President responsible for Corporate Planning, Credit, Comptroller, Systems and Internal Audit.

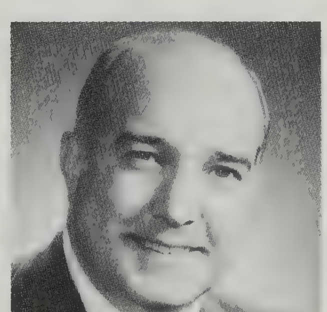


K.C. Reeves, Vice-President responsible for Refining.



C.G. Walker, Vice-President responsible for Corporate Affairs.

W.M. Winterton, Vice-President, General Counsel and Secretary.



W.H. Burkhiser, Treasurer.

J.A. Scobie, Comptroller.

Gulf Oil Canada Limited

Officers

C.D. Shepard, Chairman of the Board and Chief Executive Officer
J.L. Stoik, President and Chief Operating Officer
L.P. Blaser, Executive Vice-President
J.C. Phillips, Q.C., Executive Vice-President
W.P. Wilder, Executive Vice-President
S.G.B. Pearson, Senior Vice-President
R.C. Beal, Vice-President
*R.H. Carlyle, Vice-President
J.D. DeGrandis, Vice-President
W.H. Griffin, Vice-President
R.E. Harris, Vice-President
*E.M. Lakusta, Vice-President
**D.S. Lyall, Vice-President
S.K. McWalter, Vice-President
K.C. Reeves, Vice-President
C.G. Walker, Vice-President
W.M. Winterton, Vice-President, General Counsel and Secretary
W.H. Burkhiser, Treasurer
J.A. Scobie, Comptroller

*Located in Calgary
**Retiring April 30, 1978

Directors

L.P. Blaser, Toronto
E.H. Crawford, Toronto
E.F. Crease, Halifax
J. Peter Gordon, Toronto
Dr. D.S.R. Leighton, Banff
Gérard Plourde, Montreal
Alfred Powis, Toronto
Kathleen M. Richardson, Winnipeg
R.G. Rogers, Vancouver
C.D. Shepard, Toronto
J.L. Stoik, Toronto
W.H. Young, Hamilton

Director Emeritus

Beverley Matthews, Q.C., Toronto

Head Office
800 Bay Street, Toronto, Ontario

Marketing Region Offices
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

Chemicals
Plants: Montreal East, Shawinigan and Varennes, Quebec

Accounting and Data Processing Centres
Montreal, Quebec; Toronto, Ontario; Calgary, Alberta

Research and Development Centre
Sheridan Park, Ontario

Exploration/Production Offices
Calgary, Edmonton and Stettler, Alberta; Estevan, Saskatchewan

Operated gas plants: Bashaw West, Gilby, Morrin-Ghost Pine, Nevis, North Buffalo Lake, North Sibbald, Pincher Creek, Rimbey, Strachan and Swalwell, Alberta.

Pipelines
Operated pipelines: Alberta Products, Gulf Alberta, Gulf Saskatchewan, Rimbey, Saskatoon, Shawinigan and Valley

Refineries
Point Tupper, Nova Scotia; Montreal East, Quebec; Clarkson, Ontario; Edmonton, Alberta; Kamloops and Port Moody, British Columbia

Asphalt Plants
Moose Jaw, Saskatchewan; Calgary, Alberta

Principal Affiliates (wholly-owned)
SERVICO LIMITED
Head Office: Quebec, Quebec
President: W.H. Griffin

SUPERIOR PROPANE LIMITED
Head Office: Toronto, Ontario
President: R.G. Samworth

Registrar
Canada Permanent Trust Company, Toronto

Transfer Agents
Canada Permanent Trust Company — Vancouver, Calgary, Regina, Winnipeg, Toronto, Montreal, Saint John, New Brunswick; Charlottetown, Halifax, St. John's, Newfoundland

Registrar and Transfer Company — New York

Printed in Canada

Gulf Oil Canada Limited

Annual Meeting of Shareholders

April 28, 1977, Toronto, Canada

Remarks by:

C. D. Shepard, Chairman of the Board
J. L. Stoik, President

Annual General Meeting Proceedings

The 70th Annual General Meeting of Shareholders of Gulf Oil Canada Limited took place in Toronto on April 28, 1977. Of the total shares outstanding, 85.8 per cent were represented at the meeting either in person or by proxy. Clarence D. Shepard, Chairman of the Board and Chief Executive Officer, was Chairman. Also on the platform were John L. Stoik, President; L. P. Blaser, Executive Vice-President; and W. M. Winterton, General Counsel and Secretary.

Following the business formalities relating to the assembly of the meeting, the financial reports of the Company were presented; the auditing firm of Clarkson, Gordon and Co. was re-appointed; and two new Directors — Dr. David S. R. Leighton and Miss Kathleen M. Richardson — were elected to succeed R. J. Butler and Beverley Matthews who did not stand for nomination. Mr. Matthews, who served with distinction as a Director for over 22 years, was appointed Director Emeritus.

In his remarks, Mr. Shepard said the fact that Canada is facing yet another unsettling phase in its march to maturity should neither shock nor surprise us, but today's problems must alert all Canadians to the urgent need to re-examine Confederation in its present form.

He likened Confederation to a maturing family whose changing relationships have been usually peaceful, sometimes stormy, fiercely united when challenged by outside conflict, sometimes holding regional grudges, always interesting, quietly proud.

"Quebec is not alone in wanting to change the structure of the family confederation. The fact is that virtually all provinces ... have arrived at new levels of strength and confidence, of capability and pride, and the seriousness of their aspirations must not be ignored." As in any strong family unit that continues to mature, he continued, "the wise parent gradually relinquishes authority, allowing it to be replaced by mutual respect and intelligent accommodation of individual needs and desires, with due regard for the common good of the family unit as a whole."

Mr. Stoik reported that operating earnings were generally higher in the first quarter, but due to higher financial charges related to interest and currency translation net earnings of $40.6 million or 89 cents per share were

about two per cent lower than $41.4 million or 91 cents per share earned during the first quarter of 1976.

He told the meeting that 10 of the 17 wildcat wells in which the Company participated during the first quarter were successful. Two of the successful wells were in northeastern British Columbia, six in Alberta, and two in the Mackenzie Delta, the latter confirming the 1.4 trillion cubic feet of proved reserves Gulf Canada and its 25 per cent partner, Mobil Oil Canada, have found in the Parsons Lake field.

"These resources are sufficient to support the $400 million gas processing plant and producing facilities that we plan to build in the Delta once the Arctic Gas pipeline is approved in Canada and the U.S. Our project would be conditional upon the establishment of acceptable frontier regulations and a price structure for the gas that will enable us to justify making the large investment involved."

He said the Company plans to participate in a total of 69 wells this year, compared to 55 committed to in 1976. Included in this year's program will be a second offshore well in the Beaufort Sea to drill the Ukalerk structure five miles southeast of the Tingmiark well which was suspended last year. Gulf Canada is also involved in a stepped-up program in the high Arctic with the Arctic Islands Exploration Group.

The full text of the addresses by Messrs. Shepard and Stoik are included in this booklet.

Remarks by
C. D. Shepard, Chairman,
Gulf Oil Canada Limited

ON THE ROAD TO NATIONAL MATURITY

Let me begin by advising those who may not have already heard, your Board of Directors at its meeting this morning declared a dividend of 27 cents per share payable on July 1, 1977, to shareholders of record May 27. As in the last quarter, this dividend includes the maximum increase of eight per cent allowable calculated on a quarterly basis under the AIB regulations.

History's record of this decade will almost certainly refer to 1976-77 as a prelude or expectation period for the petroleum industry.

In Canada, we have seen further progress towards decisions expected later this year on such matters as a national energy policy (including the vital need for conservation), the Mackenzie Valley pipeline, frontier land regulations, crude oil price levels, and many other questions of importance to this industry, to your Company, and indeed, to all Canadians.

Internationally, we saw the first break in the unanimity of OPEC nations in crude oil pricing. The eventual consequences of this are still uncertain.

Equally unclear at this moment is the full impact on Canada of the new U.S. energy policy, revealed last week by President Carter. Unquestionably, it will influence events and decisions in many energy-related fields in Canada.

The months ahead will be bristling with activity and expectation — and I hope, more constructive action than disappointments.

In just a few moments, I shall ask John Stoik, your President and Chief Operating Officer, to speak about the Company's operating performance and outlook, including the earnings for the first quarter of 1977.

Before doing that, let me give you some thoughts on two subjects which must concern us all. One is the present state and future shape of this confederation called Canada. The other is the social responsibility of business. The two are more closely related than might first appear.

Confederation

In times of uncertainty, emotions tend to run high. Canadians today face considerable uncertainty about whether Confederation can continue to exist in its present form. Most of that uncertainty, but not all, has been generated by recent events in the province of Quebec—and more particularly, by reactions to those events from other parts of Canada and elsewhere. Much of the reaction has been more emotional than reasoned. This is disquieting when the real need is for cool reason and logic.

If we pause and view Confederation as a family, rather than as a French-English confrontation, or as a federal-provincial power struggle, we can perhaps gain a clearer perspective of where Canada is today in its evolutionary maturing process.

The Canadian family began almost 110 years ago. Its four founding members created a strong federal power—the head of the family, if you like—and settled certain rights and responsibilities on the four provinces.

Over the years, the family grew in number, its most recent member, Newfoundland, being welcomed in 1949. As the family group enlarged and its members matured and gained experience, relationships within the family ebbed and flowed—usually peaceful, sometimes stormy, fiercely united when challenged by outside conflict, sometimes holding regional grudges, always interesting, quietly proud.

Differing aspirations, different resources and capabilities, different viewpoints—all of these factors became woven into the fabric of the Canada we know today, just as they contribute to any family.

And as in any strong family unit that continues to mature, the wise parent gradually relinquishes outright authority, allowing it to be replaced by mutual respect and intelligent accommodation of individual needs and desires, with due regard for the common good of the family unit as a whole.

That Canada has so far achieved some degree of success in this area is evident in the fact that the family still exists 110 years after it was begun.

That we today face yet another unsettling phase in our maturing should neither shock nor surprise us.

Nor should the actions of any one member of the family distract us from the needs and concerns of other mem-

bers, or of the unit as a whole.

Quebec is not alone in wanting to change the structure of the family Confederation. The simple fact is that virtually all provinces in Canada have arrived at new levels of strength and confidence, of capability and pride, and the seriousness of their aspirations must not be ignored.

The need now, in my view, is for all Canadians to be willing—even anxious—to re-examine the present form of Confederation. We must all be willing to listen carefully, to speak out frankly, and above all to strive actively to find the accommodations needed to re-cement our family bonds. And we must recognize the urgency of starting now if we are to move forward to an even stronger, more vibrant stage of maturity and growth.

I believe that together all Canadians have the intelligence and strength to do whatever must be done to keep Canada productively together. Can we not share this belief?

Is it appropriate that a business person should be concerned with matters such as Confederation? Should I, for example, concern myself only with the profitability of Gulf Canada?

It seems to me to be not only clearly appropriate but essential for everyone who can contribute, to engage actively in dialogues broader than our day-to-day business interests.

I think it is essential because we hear increasing public cries of the need for business to be more sensitive to its social responsibilities—to focus on, in addition to its concerns with profits and forecasts, the social consequences of its decisions.

I feel it essential to get involved in that dialogue, not because I concede that business is insensitive to social responsibility, but because I see a real need for business to demonstrate visibly how socially responsible it is. If business in general has failed in any aspect of its social responsibility, it is in ensuring public perception and understanding of its social awareness and involvement.

What is social responsibility in the business context?

It is always tempting to over-simplify definitions of this kind; either to take in too much territory or be too limiting. To do so in this case would create the danger of forgetting that social responsibility is a complex set of inter-relationships—not unlike the relationships inherent in the Confederation family of which I just spoke. No

tokenism or self-serving action here!

Identifying some of the things that social responsibility is *not* may help us to understand more clearly what, in practical terms, it really is.

Among the things that social responsibility is not, these would rank high:

*it is not the sole concern of any one of governments, unions, business, churches, consumer groups, environmentalists, or any other well-meaning organizations;

*it is not confrontation for confrontation's sake, especially if it employs violence or hostility;

*it is not a process of accusation without a concurrent responsibility to put forward constructive and viable alternatives;

*it is not just talk.

What, then, is it?

Surely, social responsibility must be a sharing of attitudes, a real sensitivity to the need for positive, constructive and cooperative action by every element of our society to improve the quality of life for *all* Canadians. To me, social responsibility in the business context must reflect an awareness of the effects of business decisions on the total social environment in which business operates.

Test that definition against a project of vital interest to us all—the proposed Arctic Gas pipeline by way of the Mackenzie Valley.

Despite those who question the benefits to Canada of the Arctic Gas line, there is no sound argument against it on "economic" grounds alone.

It will move sorely-needed energy to market so that the economies of Canada and the U.S. can continue to prosper; and it will, in time, be profitable in its own right. It will provide opportunities and choices for Canadians in the north as well as in the south.

The principal opposition to the Arctic Gas line, or to any proposed pipeline from the Arctic for that matter, is staged in the "social responsibility" theatre. The emotional cry once again is that business, unless forced to do otherwise, would build the pipeline without regard for environment, without regard for social impacts, without regard for the economic and social rights and claims of native peoples.

Anyone familiar with the millions of dollars and

thousands of man-years of time spent by the sponsoring companies in researching and assessing these very questions will know how fallacious such charges are.

And where, I would ask these socially-responsible opponents, do their responsibilities begin and end?

Is it socially-responsible to deny millions of people the opportunity for a supply of energy that is so essential to the economic and social well-being of North America?

The broader point at issue here is this: if debate about the relative social responsibility of business escalates to where business is seriously hampered in performing its primary function, which in our case is to do our part in helping to ensure Canada's future energy supplies, such debate in itself would surely be the most socially-irresponsible act of all.

Remarks by
J. L. Stoik, President
Gulf Oil Canada Limited

CANADA'S ENERGY IMPERATIVES

Last year was not an easy one for either the Company or the industry. During 1976, both were adversely affected by the generally depressed state of the nation's economy and the inability to recover increased operating costs from sales in the marketplace.

Although the Company's production earnings in 1976 increased due to higher prices for oil and natural gas, overall profits declined as a result of sharply reduced earnings from refining and marketing operations. Almost flat demand, combined with surplus refining capacity — particularly in Eastern Canada — intensified the price competition in the market. And with two new competing refineries coming on stream in Ontario, the soft price situation is likely to continue for several years.

Company Performance

The Company faced a number of abnormal problems in 1976. These included cold weather operating difficulties at the Clarkson and Montreal refineries. As well, the contract we had at Point Tupper to process 40,000 barrels a day of crude oil for Gulf Oil Corporation expired last spring and was not renewed due to changes in U.S. regulations affecting imports. However, we are pleased to

report some recent sales to other companies which will lead to increased utilization of our capacity at Point Tupper this year.

We are pleased to report also, that the $180-million modernization and expansion of the lubricating oil facilities at our Clarkson refinery is proceeding well. When the new plant comes on stream in 1978, it will result in an almost fourfold increase in Gulf Canada's lube oil production, to approximately two million barrels a year.

In January the Company announced the closure, early in 1978, of its outmoded calcium carbide and acetylene black plant in Shawinigan, Quebec. Although we made a small profit at Shawinigan in 1976, our studies showed that with the coming on stream of new high-volume acetylene black plants elsewhere in the world, employing the latest low-cost technology, the Shawinigan plant would lose its export markets and no longer be viable.

The Hon. Jean Chretien, Federal Minister of Industry, Trade and Commerce, whose constituency includes Shawinigan, recently has suggested that new technology for the production of low-sulphur steel may result in an increased Canadian demand for calcium carbide some years earlier than our studies had indicated. On the basis of this information we are restudying the situation to determine when and if this new market is likely to materialize; but I would emphasize that we would have to see something pretty concrete in order to justify modification of our shutdown plans.

Upstream Activity

As a result of Gulf Canada's aggressive exploration activities over the past decade, particularly in the frontiers, your Company today has an excellent land position in most of the prospective areas. In the past couple of years our primary exploration emphasis has swung back to Western Canada, reflecting an improved economic climate for both oil and gas as a result of price increases and provincial royalty adjustments, coupled with attractive geological prospects.

Our 1976 exploration spending in the west was at a record level as we participated in 29 ventures—mostly deeper tests—and the success ratio on these wildcat wells was 48 per cent. We are satisfied that they discovered

substantial reserves, although further drilling will be required to confirm these accumulations.

In the first quarter of this year we participated in a total of 17 wildcat wells, of which ten were successful.

Two of the successful wells were in the Mackenzie Delta confirming the 1.4 trillion cubic feet of proved reserves that we and our 25 per cent partner, Mobil Oil Canada, have found in the Parsons Lake field. As we have already said, these resources are sufficient to support the $400-million gas processing plant and producing facilities that we plan to build in the Delta once the Arctic Gas pipeline is approved in Canada and the U.S. Our project would be conditional upon the establishment of acceptable frontier regulations and a price structure for the gas that will enable us to justify making the large investment involved.

The other eight successful wells were drilled in Western Canada: two of these in northeastern British Columbia, three in northeastern Alberta, two others in the foothills and deep plains, and one in northwestern Alberta.

Altogether, including the frontiers, we plan to participate in 69 wells this year, compared to 55 committed to in 1976. The Mackenzie Delta-Beaufort Sea will be our second most active area. This summer we expect to participate in a second offshore well in the Beaufort Sea to drill the Ukalerk structure five miles southeast of the Tingmiark well which was suspended last year. We are also involved in a stepped-up program in the high Arctic with the Arctic Islands Exploration Group. The principal objective of this group is to secure the threshold volume required by the proposed Polar Gas line, which we see as being required after the Arctic Gas pipeline is built in the Western Arctic.

The Company is also becoming increasingly active in coal and other minerals, and we have established a New Energy Resources Division in our Exploration and Production Department.

First-Quarter Earnings

At this point I would like to report that first-quarter earnings for our Company amounted to $40.6 million or 89 cents per share, a decline of about two per cent from the $41.4 million or 91 cents per share earned during the first quarter last year.

At the operating level, earnings were generally ahead of the first quarter of last year. The reported decline in net earnings was attributable entirely to financial charges, mainly reflecting higher interest costs on long term debt and a charge resulting from translation to Canadian currency of our recent private placement of $125 million of U.S. funds.

Future Energy Requirements

Next I would like to discuss for a few moments Canada's future energy needs and what can be done to most effectively meet them.

Unfortunately, the recent gas discoveries in Western Canada have given some people the mistaken impression that decisions can be deferred on pipelines out of the Arctic. True, there is at the moment a temporary surplus of gas producibility in Western Canada due to recent exploration successes in previously marginal areas. However, in most cases the reserves which have been found are small, and will not last long once they are connected.

Gulf Canada's recent submission to the National Energy Board estimated that despite these reserves Canada may face gas deliverability problems during peak demand periods as early as 1980 and overall supply shortages by 1983. An increasing number of companies and government agencies have been coming to similar conclusions.

If one looks beyond the temporary gas "bubble," as it is called, and considers Canada's total energy needs, there is no question that Canada will face serious energy and balance-of-payments problems by the early to mid-1980's.

Canada was briefly self-sufficient in oil production between 1971 and 1974, but that situation no longer exists. Our Company's supply forecast for conventional crude oil, which anticipates new discoveries and reserve additions to existing pools, indicates that oil supply from the conventional areas of Western Canada will only be able to meet demand west of the Ottawa Valley until about 1984, even with the scheduled discontinuation of exports in 1981.

Thereafter the oil supply deficit will have to be made up from additional imports and whatever non-conventional

production is available from the tar sands and heavy oil deposits in the west.

Our economists estimate that Canada's balance of payments in crude oil trade will increase from $3.5 billion this year to almost $6 billion by 1985. Even after deducting revenues from gas exports under existing contracts, the net petroleum deficit in 1985 would still amount to approximately $3 billion, compared with only a slight net deficit forecast for this year.

Canada's Energy Priorities

In preparing a recent speech we undertook to list Canada's energy options in the order of priority that we attached to them.

We took a "first things first" approach, putting at the head of the list:

1. Increased emphasis on energy conservation, followed by
2. Concentrating first on developing known energy resources.
3. Exploring aggressively for new reserves in Western Canada.
4. Approval of the Canadian Arctic Gas pipeline to bring Mackenzie Delta gas on stream as soon as possible.
5. Providing sufficient incentive to ensure that tar sands developments proceed as rapidly as possible, and
6. Maintaining a high level of exploration in the frontiers.

Clearly, the number one item on our list, energy conservation, is not really an option. It is an absolute necessity—and there is plenty of room for us to improve. In Sweden, for example, a country with similar climate and standard of living to Canada, the per capita energy consumption is approximately 40 per cent less than in this country.

However, rather than stressing punitive measures to promote conservation, which would drive up costs, I think the primary emphasis in Canada should be on promoting energy efficiency measures which reduce overall costs and improve productivity; thereby increasing Canada's ability to compete internationally.

At the same time, all Canadians must recognize that higher fuel prices not only open up large additional supplies of previously uneconomic energy sources, but also provide powerful financial incentives for conservation in home, industry and transportation.

In terms of encouraging the finding and development of new energy, it is also important for the public and governments to recognize that the selling prices of natural gas and petroleum must be based on the cost of replacing that energy. To insist that it be sold at the original finding costs would be a short-cut to energy disaster, because the industry would not have sufficient funds to replace those reserves.

Gulf Canada Conserving Energy

At the back of this room is a display showing four innovative ways in which Gulf Canada is contributing to energy conservation, not only in this country but abroad as well.

Illustrated is the effective energy program being conducted in our refineries, with ten per cent reduction in fuel use as the initial target.

Also shown are Gulf Canada's patented Vortometric burners, developed jointly with the Ontario Research Foundation, which have been licensed to a dozen equipment manufacturers in several countries. Some 500 of these low-pollution burners, which offer fuel savings of close to ten per cent, have been installed in a variety of industrial and commercial applications around the world.

Newest of our research ideas to offer a significant way to save petroleum is our sulphur-asphalt process which permits up to 50 per cent of the petroleum in highway surfaces to be replaced with increasingly abundant sulphur, while producing pavement of superior quality.

Centrepiece of the display is a model of our new Calgary building which will be built by 1980 to house our 1,400 employees in that city. Making use of the Encon system pioneered by the builder, Canada Square Limited, in the Ontario Hydro Building in Toronto, our building will require no furnace and will operate on less than half the energy requirement of a similar-size building of conventional design and construction. The computer-controlled system gathers and stores heat energy from the lights, office equipment and personnel and recycles it for heating and cooling purposes. Incidentally, the Hydro building has just come through the toughest Toronto winter in 43 years with heat to spare. The builder estimates that the Encon system could produce similar savings for any building of at least one million square feet.

Conservation by itself, however, is only part of the answer. We must also have additional energy from every

possible source including coal, nuclear and some of the renewable possibilities. Even with effective conservation, we estimate that Canada's total energy needs will double by the year 2000 and that oil and natural gas will still have to provide over 70 per cent of the increasing requirements to the end of this century.

Reinvestment

The federal government will shortly introduce legislation requiring oil companies to demonstrate how much of their production earnings they are reinvesting to find and develop new energy for Canada.

Our Company has already supplied this information to the government on a voluntary basis for several years back; and on the basis of the information requested to date we see no problem in meeting any mandatory reporting requirements. Our track record demonstrates that we have been plowing a very high proportion of our revenues back into energy exploration and development.

Looking back over the past few years, Gulf Canada's total capital and exploratory spending has increased sharply from $97 million in 1973 to close to $500 million planned for this year. Of this, approximately 60 per cent will be for exploration and development of new energy resources for Canadians, including our participation in the Syncrude project.

These sharp increases in the level of capital spending have been financed to a very considerable extent by the reinvestment of a high proportion of our increased cash flow, including nearly 75 per cent of earnings which have been retained and reinvested in the business in the past four years.

Assuming the Arctic Gas pipeline goes ahead, our capital and exploratory expenditures over the next five years are currently projected to exceed $2 billion — and this figure could increase if, for example, a decision is made to expand the Syncrude plant beyond 125,000 barrels per day.

The Role of Industry and Governments

While, during the past three years, the federal government has taken some useful steps towards creating an expansionary climate for oil industry activity, repeated confrontations and lack of cooperation on energy between the federal and provincial governments have

allowed only a stop-gap or piece-meal approach to energy planning.

The resulting uncertainties have made it extremely difficult for the industry to get on with the job. We readily admit that we're not perfect and have not always done the right things at the right time, but we feel that we have the experience and are qualified to find and develop the energy that Canadians will need in the very near future.

In this regard I keep coming back to the thought that the great accomplishments in our society have been achieved by those in the private sector dedicated to risk-taking with the hope of reward in a competitive environment.

While there have been recent improvements in the tax and other incentives for exploration, governments could make their maximum contribution to future energy development in this country by removing or resolving existing uncertainties.

Let me give you a few examples of these uncertainties as they affect us and the rest of the industry.

1. After seven long years we still do not have the new frontier land regulations that will determine such things as land use, Canadian content, Petro-Canada participation and royalty arrangements. Companies need to have a clear indication of how much they can hope to earn in the future from frontier spending, which already totals $2.5 billion by the industry.

2. Both groups through which we have been participating in the offshore Labrador search have had to cancel their drilling plans for this year because of the jurisdictional dispute between Newfoundland and the federal government and concern over Newfoundland's proposed new land regulations.

3. In addition, the recently-announced six-month moratorium on exploration in a 30,000-square-mile area of the Mackenzie Delta while a land-use study is completed will effectively delay our further exploration there for a year.

4. No clear-cut economic ground rules exist for the development of badly-needed additional projects in the Athabasca tar sands and heavy oil deposits.

5. The unclear situation with regard to price increases and the pass-through of costs.

These uncertainties — including the need for an early decision on the Arctic Gas pipeline — are the major road-blocks that need to be cleared so that our industry can proceed as fast as possible with the job at hand.

We hope that through understanding, cooperation and commitment by all concerned, today's uncertainties will soon be resolved, thus providing the industry with the fiscal and regulatory stability required for a maximum effort to meet Canada's energy needs.

Directors

L. P. Blaser, *Toronto*
E. H. Crawford, *Toronto*
E. F. Crease, *Halifax*
J. Peter Gordon, *Toronto*
Dr. D. S. R. Leighton, *Banff*
Gérard Plourde, *Montreal*
Alfred Powis, *Toronto*
Kathleen M. Richardson, *Winnipeg*
R. G. Rogers, *Vancouver*
C. D. Shepard, *Toronto*
J. L. Stoik, *Toronto*
W. H. Young, *Hamilton*

Director Emeritus

Beverley Matthews, Q.C., *Toronto*

Officers

C. D. Shepard, Chairman of the Board and Chief Executive Officer
J. L. Stoik, President and Chief Operating Officer
L. P. Blaser, Executive Vice-President
J. C. Phillips, Q.C., Senior Vice-President
F. D. Aaring, Vice-President
R. C. Beal, Vice-President
J. D. DeGrandis, Vice-President
W. H. Griffin, Vice-President
R. E. Harris, Vice-President
D. S. Lyall, Vice-President
S. K. McWalter, Vice-President
S. G. B. Pearson, Vice-President
K. C. Reeves, Vice-President
C. G. Walker, Vice-President
W. M. Winterton, General Counsel and Secretary
W. H. Burkhiser, Treasurer
J. A. Scobie, Comptroller

Lithographed in Canada

Gulf

Gulf Oil Canada Limited

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Please notify the Stock Transfer Unit,
477 Mount Pleasant Rd., Toronto M4S 2M1
of any change of address.

Report to Shareholders

For six months ended June 30, 1977

GULF OIL CANADA LIMITED

file

GULF OIL CANADA LIMITED
CONSOLIDATED STATEMENT OF EARNINGS
(~~Unaudited Interim Report~~)

	Six Months Ended June 30 1977	Six Months Ended June 30 1976
	(millions of dollars)	
REVENUES:		
Gross sales and other operating revenues	$2,015.0	$1,693.7
Deduct – Crude oil sales	(741.4)	(628.1)
– Taxes collected for governments	(165.9)	(162.7)
Net sales and other operating revenues	1,107.7	902.9
Investment and sundry income	17.3	14.0
Net revenues	1,125.0	916.9
EXPENSES:		
Purchased crude oil, products and merchandise	566.3	432.7
Operating expenses	106.9	89.3
Exploration, dry hole and other frontier area expenditures	44.0	31.1
Selling, general and administrative expenses	143.6	132.7
Depreciation, depletion and amortization	41.7	38.3
Interest on long term debt	9.7	3.1
	912.2	727.2
EARNINGS BEFORE INCOME AND OTHER TAXES	212.8	189.7
TAXES:		
Taxes other than taxes on income	58.6	54.9
Income taxes (includes deferred taxes of $29.2 in 1977; $20.6 in 1976)	63.1	58.7
	121.7	113.6
EARNINGS FOR THE PERIOD	$ 91.1	$ 76.1
Earnings per share	$ 2.00	$ 1.67
COMMON SHARES ISSUED	45,492,906	45,492,906

(See accompanying note re accounting change)

91.1
49.6
50.5

76.1
41.4
34.7

OPERATING STATISTICS

	Six Months Ended June 30 1977	Six Months Ended June 30 1976
	(daily volumes)	
Gross crude oil and natural gas liquids produced – barrels	117,283	122,177
Gross natural gas produced and sold – thousands of cubic feet	438,154	470,012
Crude oil processed – barrels	337,015	297,305
Petroleum products sold – barrels	285,566	256,937

GULF OIL CANADA LIMITED
CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(Unaudited Interim Report)

	Six Months Ended June 30 1977	1976
	(millions of dollars)	
SOURCE OF FUNDS:		
From operations*	$ 161.1	$ 133.8
Long term obligations	149.1	44.0
Sales of properties and investments	6.5	4.0
	316.7	181.8
USE OF FUNDS:		
Additions to property, plant and equipment	148.3	113.0
Reduction in long term debt	8.6	2.5
Dividends	24.6	22.7
Other (net)	3.0	(3.0)
	184.5	135.2
Increase in working capital	132.2	46.6
Working capital, beginning of period	473.7	439.9
Working capital, end of period	$ 605.9	$ 486.5

*Earnings for the period adjusted for charges or credits not affecting working capital.

CONSOLIDATED STATEMENT OF WORKING CAPITAL
(Unaudited Interim Report)

	June 30 1977	1976
	(millions of dollars)	
Cash and marketable securities	$ 217.4	$ 112.0
Accounts receivable	466.1	412.2
Inventories of crude oil, products and merchandise	430.8	362.2
Materials, supplies and prepaid expenses	36.1	37.1
Current assets	1,150.4	923.5
Short term loans	26.0	.8
Accounts payable and accrued liabilities	442.6	363.0
Income and other taxes payable	50.9	61.3
Current portion of long term debt	12.7	.5
Dividends payable	12.3	11.4
Current liabilities	544.5	437.0
Working capital	$ 605.9	$ 486.5

Toronto, Ontario, August 5, 1977

TO THE SHAREHOLDERS:

Net earnings for the six months ended June 30, 1977, amounted to $91.1 million or $2.00 per share, compared with $76.1 million or $1.67 per share for the first half of 1976.

Profits from exploration and production operations improved somewhat due to higher crude oil and natural gas prices. Earnings from refining and marketing operations also increased as a result of improved refinery operations and higher sales volumes this year, together with some inventory gains realized following price increases which were allowed in March to reflect the 70-cent-per-barrel rise in crude oil prices on January 1. Results from these operations, however, are far from adequate as severe market competition continues to preclude full recovery of higher crude oil and operating costs.

Capital and exploratory expenditures totalled $192.3 million, compared with $144.1 million in the first half last year. Exploratory expenditures increased by $12.9 million to $44.0 million for the six-month period.

Working capital increased $132.2 million as a result of new long term borrowings of $149.1 million.

ACCOUNTING CHANGE

With effect from January 1, 1977, the Company has changed its method of accounting for gains and losses arising on translation of U.S. dollar long term liabilities to Canadian dollars. Such unrealized gains and losses, which were previously included in earnings for the period, are now to be deferred and amortized over the term of the liabilities. This change is in line with the proposed accounting recommendations contained in an Exposure Draft on "Accounting for Translation of Foreign Currency Transactions," issued in June, 1977, by the Accounting Research Committee of the Canadian Institute of Chartered Accountants.

As a result of this change, earnings for the six-month period ended June 30, 1977, have been increased by $3.8 million and earnings for the three-month period ended March 31, 1977, previously reported as $40.6 million, have been restated as $43.9 million. The earnings for comparable periods of prior years have not been restated, since prior to the sale of U.S. $125 million 8 3/8 per cent notes in February, 1977, the Company did not have significant long term U.S. dollar indebtedness.

TAXES AND OTHER GOVERNMENT REVENUES

	Six Months Ended June 30 1977	1976
	(millions of dollars)	
From Gulf Canada:		
Income taxes — current	$ 33.9	$ 38.1
— deferred	29.2	20.6
Other taxes	58.6	54.9
Petroleum and natural gas lease payments	11.1	13.5
Crown royalties, less incentive credits	82.9	64.4
	215.7	191.5
Collected for governments:		
Gasoline, fuel and excise taxes	165.2	153.9
Crude oil export taxes	.7	8.8
	165.9	162.7
GRAND TOTAL	$381.6	$354.2
NET EARNINGS AFTER TAXES	$ 91.1	$ 76.1

NEWS IN BRIEF:

Exploration and Production . . . Daily production of crude oil and natural gas liquids for the first six months averaged 117,000 barrels, about 5,000 barrels less than the same period last year because of reduced demand and operational problems in the South Swan Hills field. Daily sales of natural gas for the half averaged 438 million cubic feet, a decrease of 32 million cubic feet from last year as a result of the current market surplus and declining deliverability in older pools.

During the second quarter, two exploratory wells were successful in finding gas, one in the Mackenzie Delta and one in west-central Alberta. In the Delta, the Gulf-Mobil Siku E-21 delineation well in the Parsons Lake field tested gas from two separate zones at rates ranging from 21 to 29 million cubic feet per day. Siku E-21 is the third successful gas well drilled in the Delta this year by Gulf Canada and Mobil Oil. The last well of the winter drilling season, the Ogruknang M-31 wildcat located 20 miles west of Parsons Lake, is now being tested. In June, Gulf Canada and its partner, Mobil Oil Canada, announced suspension of further drilling in the Delta due to uncertainty regarding both the Mackenzie Valley pipeline and the northern oil and gas regulations.

The third year of an extensive inter-island group seismic program in the Arctic Islands was completed and a partner-operated well, Panarctic Depot Island C-44, was abandoned. In Alberta, an additional gas success in the foothills confirmed a significant extension of the Robb gas field; wildcat drilling is currently underway at eight other locations throughout the deep basin and foothills.

During the quarter, 27 Gulf-operated and four partner-operated development wells were drilled in Western Canada, of which 18 were successful gas wells and five found oil. At the end of the period, seven development wells were being drilled.

Now underway, the Stettler and West Wilmar enhanced-recovery projects are designed to develop new techniques to produce additional oil not recoverable through conventional methods.

The recently-completed Parsons Lake development phase I design engineering included a cost estimate of more than $400 million for a 250-million-cubic-feet gas plant and related facilities. However, no further engineering work on the facilities will be undertaken pending final approval of a pipeline route by the federal government.

In heavy oil research, work is continuing on the Wabasca thermal recovery experiments, while construction of facilities at Cold Lake is underway and wells are being drilled to coincide with a fall start-up of the steam stimulation pilot.

Supply and Distribution . . . On July 4 the National Energy Board published the findings of its Mackenzie Valley pipeline enquiry. The Canadian Arctic Gas pipeline route across the North Slope of Alaska and up the Mackenzie River valley was rejected in favor of a route across Alaska, along the Alaska Highway through the Yukon and across northeastern British Columbia.

The Canadian and U.S. governments have not yet decided which gas pipeline project will be approved. Gulf Canada's concept has always been that the interests of Canada and the United States would be best served by a joint pipeline which would transport both Alaskan and Canadian gas by an overland route to Canadian and U.S. markets. Gulf Canada supported the Arctic Gas project since it could deliver northern gas to southern markets sooner, at less cost, and with minimal social and environmental impacts.

In order to bring Canadian gas from the Mackenzie Delta to market, the system favored by the NEB would require a pipeline link from the Delta to Dawson, Yukon. Feasibility, engineering, environmental and socio-economic studies of such a system have not been made.

The Organization of Petroleum Exporting Countries' two-tier pricing arrangement, which went into effect on January 1 and continued through the second quarter, resulted in Gulf Canada purchasing further volumes of lower-priced Saudi Arabian crude rather than traditional Iranian oil. This substitution meant that landed foreign crude costs were unchanged after federal government compensation.

Towards the end of the second quarter, OPEC resolved their two-tier pricing problems. Effective July 1, Saudi Arabia and the United Arab Emirates (lower-tier members) agreed to raise their crude oil prices by five per cent, while the other upper-tier members agreed to forego their planned five per cent increase.

Refining . . . All refineries continued to enjoy generally favorable operating experience through the second quarter.

While the Clarkson lube plant modernization project remains on schedule, its cost of completion within the approved funds is under pressure. At mid-year construction was 45 per cent complete and 1,400 personnel were on site.

Marketing . . . First-half sales of petroleum products in all major categories increased over the same period last year. Substantial gains were made in lubricating oil sales in anticipation of the 1978 opening of the new lube facilities at Clarkson which will quadruple Gulf's capacity for manufacturing lubricants.

Oversupply of petroleum fuels and asphalts continued to depress prices, particularly in central and eastern Canada.

In June, the federal government announced a series of increases in the price of crude oil, commencing with a one-dollar-per-barrel rise in July. Following a 60-day price freeze, this increase will be passed on to the consumer at the end of August when prices of all products should go up by about three-and-a-half cents a gallon.

Chemicals . . . Lower earnings for the six months resulted from a stiffening of competition in the phenol and derivatives market and the adverse influence of a maintenance shutdown at the olefins plant.

In June, Gulf Canada began to supply feedstocks to the newly-built polypropylene plant of Hercules Canada at Varennes, Quebec.

Research and Development . . . In another field test of Gulf Canada's sulphur-asphalt process for paving mixes, Research and Development personnel supervised the construction of an experimental road near Midland, Michigan, in cooperation with the Michigan Department of State Highways and Transportation.

A lube oil hydrotreating pilot plant has been built to support the lubricating oil expansion currently under construction at Clarkson. The pilot plant closely resembles the Clarkson facility – but its capacity is only one-half a barrel per day! It will be used for product formulation studies and to provide processing information prior to start-up.

Chairman of the Board.

President.

Gulf

Presentation to: Montreal Society of Financial Analysts May 25, 1977

GULF OIL CANADA LIMITED

GULF OIL CANADA LIMITED

Presentation By

Clarence D. Shepard, Chairman
and Chief Executive Officer

And

John L. Stoik, President
and Chief Operating Officer

To

MONTREAL SOCIETY OF FINANCIAL ANALYSTS

Wednesday, May 25, 1977

Our company has been operating in Quebec since 1909. We have a gross investment in the province of almost $270 million, which amounts to approximately 15 per cent of our total gross investment in properties, plant and equipment. We have some 2,300 employees here, representing 22 per cent of our 11,088 employees across Canada.

As you know, most of our chemical and petrochemical manufacturing facilities are in Quebec, as well as our third largest refinery, which accounts for 21 per cent of our national capacity.

Our total payroll in the province last year exceeded $41 million; and we have close to 3,800 shareholders resident in Quebec.

We have 773 retail outlets in the province, plus 170 branches, agencies and distributors, and our net sales revenues last year (excluding fuel taxes) exceeded $400 million. In 1976 Gulf Canada collected and paid to the province $48 million in gasoline and fuel taxes; we also paid $3.5 million in municipal property taxes on our own facilities.

These figures portray a significant involvement in Quebec which goes back 68 years. Under no cirumstances would we consider walking away from our employees and other assets in this province so long as we have the prospect of earning a reasonable return on our investments here.

The name of the party that forms the government is not the important thing. What really counts is the kind of climate or atmosphere a government provides for business. We are prepared to assume that the government of Quebec will continue to provide the kind of atmosphere that will enable us to maintain a good operation and improve our profitability.

We certainly have no quarrel with the objective of making French the language of work in the province. Our company's francization policy, which we have been actively pursuing for the past two years, is in line with the spirit and objectives of the proposed new language bill, and puts us well on the way to meeting its requirements.

A major problem we see with Bill 1 would be the educational language constraint imposed on children of employees transferred into Quebec from other parts of Canada.

Of course, I would be remiss if I did not recognize that the mobility of French-speaking employees has been impeded over the years by the lack of availability of French-language schooling in many other parts of Canada.

There are improvements to be made, therefore, not only in Quebec -- where English-language education has long been available -- but also in other provinces to ensure availability of schooling in both of our country's official languages. We hope these difficulties will be resolved by a more understanding attitude by all governments.

As for actual separation, we believe it would be a tragedy for all Canadians. We are convinced that the legitimate aspirations of Quebecers can be achieved and accommodated within the Canadian confederation, just as we are convinced that the very real concerns of other provinces can also be resolved within this great country of Canada.

What is needed now is some good, objective thinking; and above all, compassionate understanding, on the part of all Canadians.

Quebec and Energy

At this point I would like to say something about the special energy benefits Quebec enjoys as a part of Confederation. These are considerations which appear to have been largely overlooked in the current debate.

Quebec has the largest refining capacity of any province in Canada. Under the federal government's national one-price system, Quebec today obtains its domestic and imported oil requirements of approximately 580,000 barrels a day at a price approximately $3.70 less than the delivered price of imported oil, which is currently about $14.50 per barrel.

Until the government in Ottawa required the building of the Sarnia-Montreal pipeline for reasons of national security, Quebec was entirely dependent upon imported oil.

Currently Quebec receives approximately 250,000 barrels a day from Western Canada at the average price in Edmonton of $10.12 per barrel, plus approximately 63 cents in pipeline charges, for a total cost of about $10.75 per barrel, the same as the delivered price to Toronto refineries.

Due to the federal government's import compensation program, Quebec refiners will also import some 330,000 barrels a day of offshore oil this year at approximately the same $10.75 price paid for oil from Western Canada.

These benefits to Quebec currently amount to almost $2.2 million per day on the basis of present demand and compensation levels; and these benefits would be lost to a separate and independent Quebec.

Quebec could, of course, take over and assume the revenues from the present 10 cent per gallon federal excise tax on gasoline sold for non-commercial purposes, which currently amounts to about $265,000 a day in Quebec. The net result would still be a daily deficit of about $1.9 million which, if applied to current consumption rates, would translate to price increases of at least nine cents per gallon on all refined products.

If the present crude oil price and compensation levels were to continue for a full year -- which they won't, because of upcoming price changes -- the net petroleum benefits which would be lost to an independent Quebec could amount to close to $690 million.

Of course, we must recognize that the present benefits will decline as the price of Canadian oil approaches the world level, and the compensation payments are reduced accordingly; but until the international price is reached the savings for Quebec would be substantial.

Without special subsidies, the refineries in an independent Quebec would no longer be competitive with refineries in Canada and the U.S. receiving crude oil at lower prices. An independent Quebec would also have to compete with the U.S. for available exports of oil and gas from Canada, and pay the premium price that export sales command. Such increases in energy costs would make it extremely difficult for Quebec manufacturers to be competitive in export markets or even against imported goods entering Quebec.

As part of a united Canada, Quebec of course shares all the energy options available in our vast country -- the arctic and offshore frontiers, the conventional and heavy oil reserves in Western Canada, the efficient oil and gas pipeline systems, the growing grid for electrical power exchange, coal deposits in both the Atlantic and Western provinces, Canada's major uranium deposits and proved nuclear power technology. These should be important considerations in favor of continued membership in Confederation.

Petroleum Taxation

The third subject I wish to discuss is the taxation of the revenues from oil and gas production.

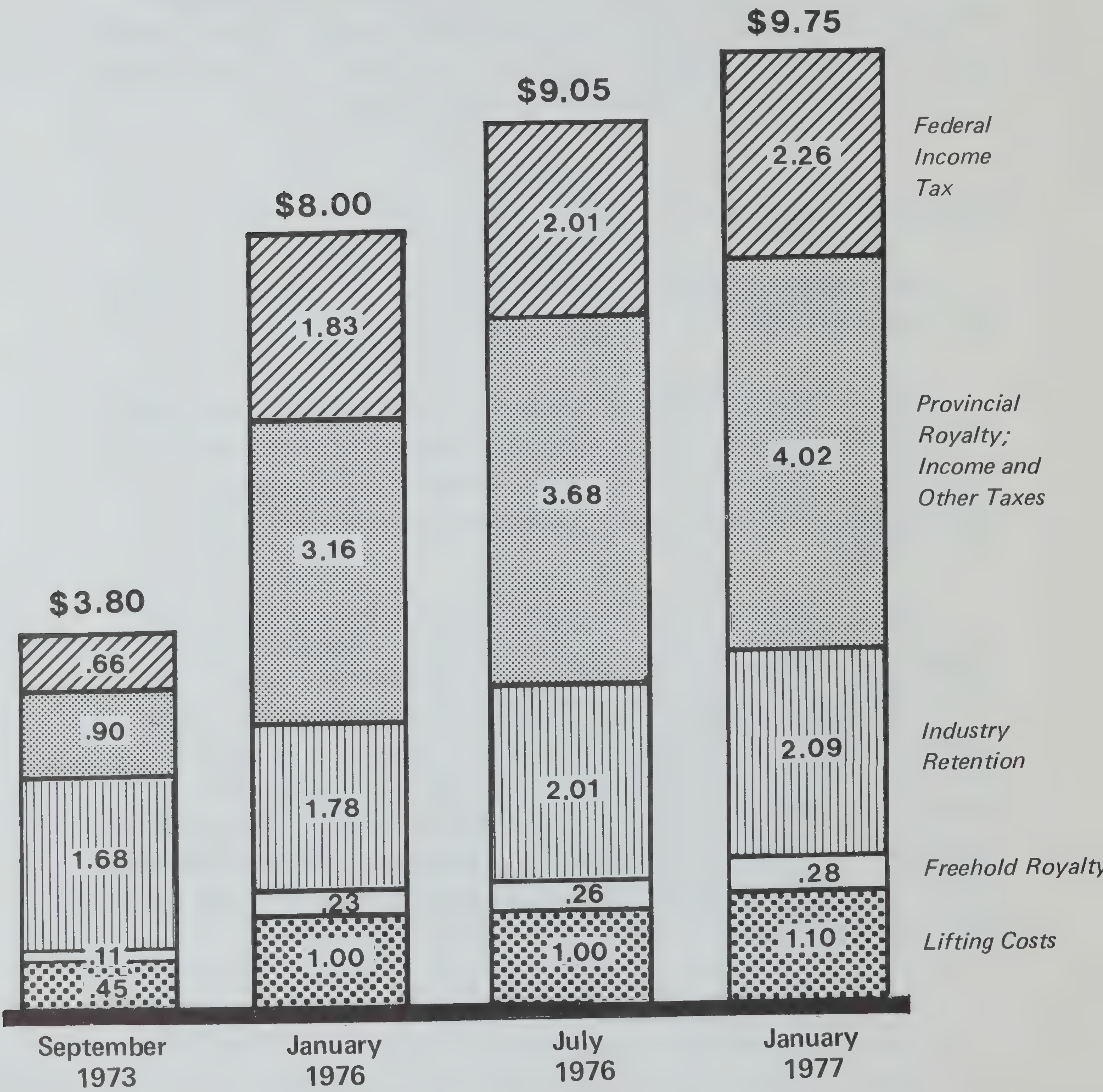
One of the specific goals set by the federal government last spring as part of its Energy Strategy to achieve self-reliance by 1985 was to at least double exploration and development activity in the frontier regions over the next three years.

The exploration incentive proposed in the recent Federal Budget is consistent with that objective in the remote high-cost areas, and will certainly assist the industry in financing such exploratory programs. However, as we have said on a number of occasions, the real incentive for the industry to undertake these programs must be the prospect of an adequate return on investment, commensurate with the risks involved, if the exploration is successful and eventually leads to production.

OIL REVENUE SHARING

(before decision to reinvest)

COMPOSITE CRUDE OIL BARREL — INDUSTRY



Let me now say a few words about revenue-sharing in the conventional areas of Western Canada.

CHART This chart illustrates where the additional funds went as the price of an average barrel of Canadian crude oil rose from $3.80 in September, 1973, to $9.75 on the first of January, this year.

If you will look at the industry retention section, which is what is left after freehold royalties (where applicable) and lifting costs, you will see that the industry's share of the price has increased by only 41 cents, from $1.68 to $2.09, before any decision is made about reinvestment.

In contrast to this 24 per cent increase for the industry, the total government take has quadrupled, from $1.56 to $6.28. Average provincial royalties, income and other taxes multiplied more than four times from 90 cents to $4.02 at present, while federal income taxes increased almost three-and-a-half times from 66 cents to $2.26.

The fact that governments are taking three-quarters of current production revenues, while the producers receive only one-quarter, suggests that some relief is required.

As a first step in this process we believe it is reasonable to suggest that the two levels of government should jointly lower taxes and royalties so that the combined government 'take' is reduced to about two-thirds and the industry retention is increased to about one-third of production income after lifting costs.

Secondly, we would recommend a return to the straightforward concept of deducting a reasonable royalty, followed by repeal of the resource allowance introduced in January of last year as partial relief for the non-deductibility of crown royalties.

These tax considerations will be of prime importance in determining whether the industry will be able to mount the exploration and development effort that will be needed to attain the federal objective of energy self-reliance, or not having to depend on imports for more than one-third of our petroleum requirements by 1985.

* * *

GULF CANADA OPERATIONS AND OUTLOOK

John L. Stoik, President
and Chief Operating Officer

My remarks today will deal with the main aspects of our company's progress; and I hope I will be able to provide a few new insights into some of the problems and opportunities we face. Copies of our remarks, including the visual aids used, will be available for you in booklet form at the close of the meeting.

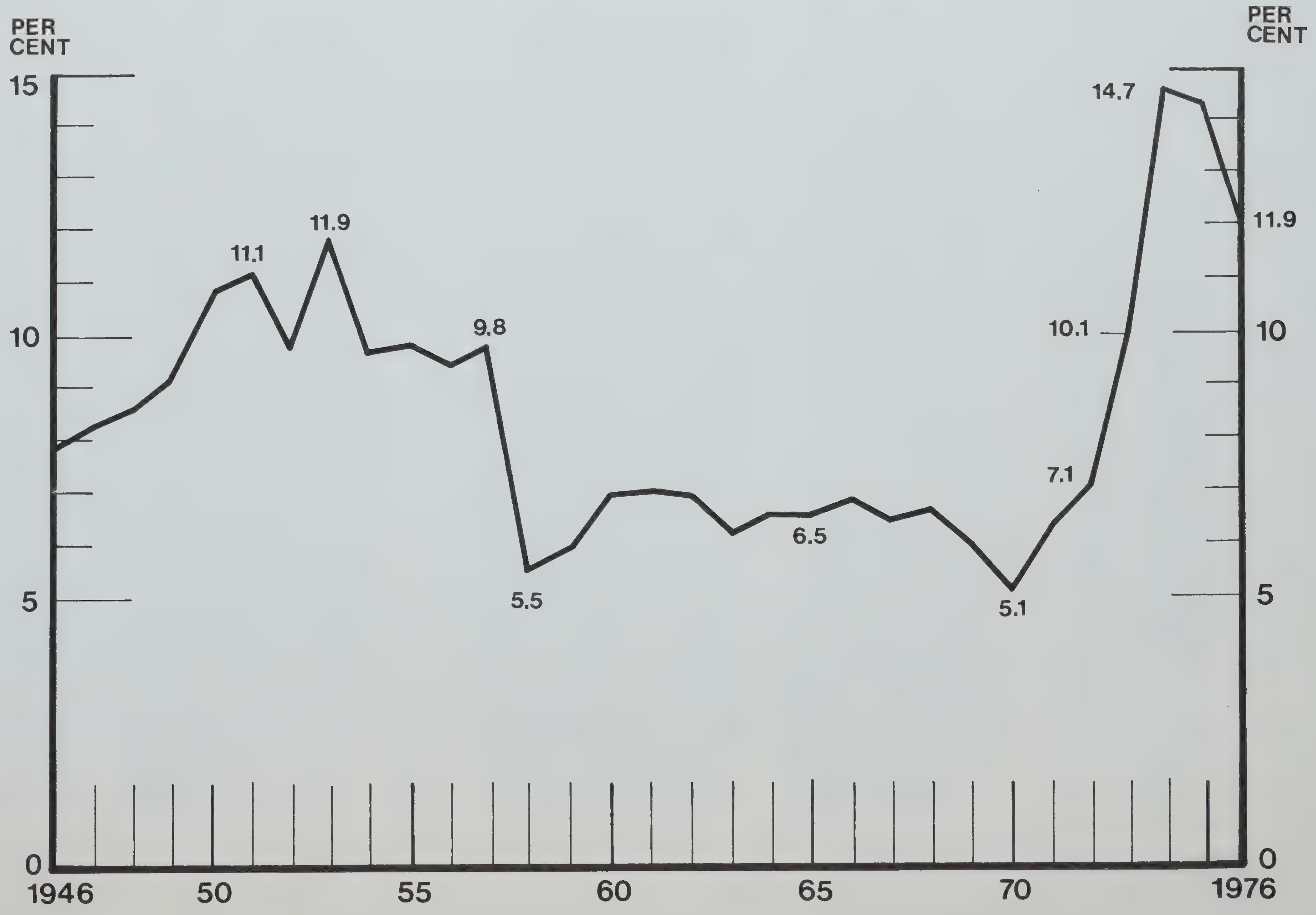
Putting our company in perspective, we were the second largest producer of natural gas in Western Canada last year, and the third largest producer of crude oil and natural gas liquids. We refine and market our products in all provinces and the northern territories, and have approximately a 15 per cent share of the Canadian market. By most criteria, including assets, earnings and investment levels, we rank as the country's second largest oil company.

Earnings

Gulf Canada's net earnings roughly quadrupled from $43 million in 1970 to a record $176.6 million in 1975. The net earnings last year declined slightly to $165.9 million due mainly to substantially lower profits from refining and marketing. These were not entirely offset by higher earnings from oil and gas production, which were achieved despite somewhat lower volumes.

GULF OIL CANADA LIMITED

RETURN ON AVERAGE CAPITAL EMPLOYED



In the first quarter of this year, earnings from operations were generally ahead of the same period last year. However, net earnings declined about two per cent to $40.6 million or 89 cents per share. The decline was due entirely to financial charges, mainly reflecting higher interest costs on long-term debt and a charge resulting from translation to Canadian currency of our recent private placement of $125 million in U.S. funds.

CHART

This chart traces Gulf Canada's return on capital employed over the past 30 years. We use it to show that for a 15-year period from the late fifties to the early seventies our return on capital employed averaged barely 6.5 per cent; and that it is only since 1973 that our earnings have recovered to the level of more than 10 per cent which we experienced during the 1950's.

However, we have stated that in the current period of high money costs average returns of approximately 15 per cent are required for the reasonably high-risk business we are in.

You will note, however, that in 1976 our return on capital declined rather sharply to 11.9 per cent, although net earnings for the year were only six per cent lower than in 1975. The principal reason, of couse, was the rapid increase in our employed capital, mainly due to large outlays required for our 16.75 per cent participation in the Syncrude project, the major lubricating oil expansion at our Clarkson refinery, and stepped up capitalized expenditures in Exploration and Production.

GULF OIL CANADA
NET EARNINGS

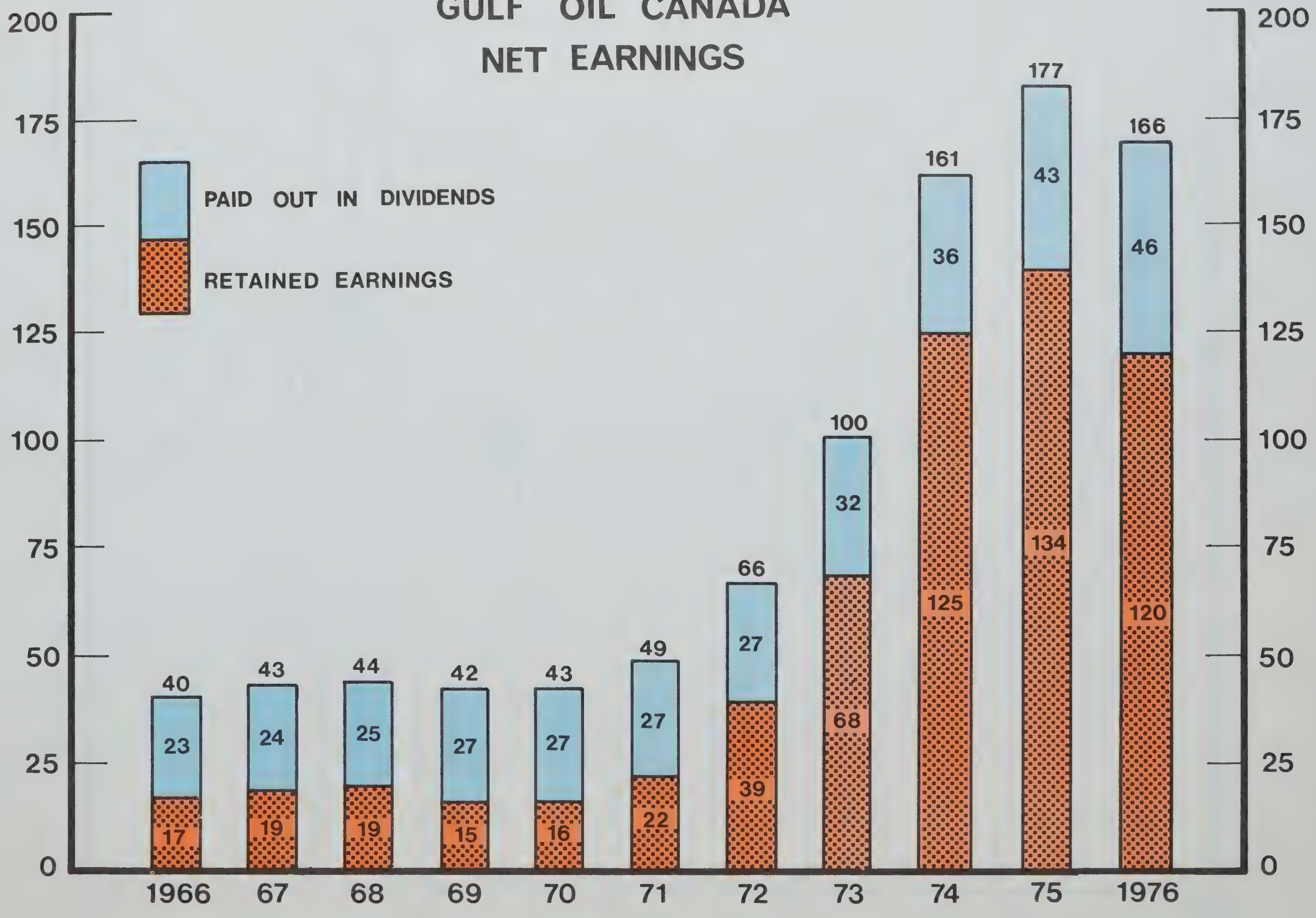


CHART This next chart shows the share of Gulf Canada's earnings retained in the business, as compared with the payout to shareholders. Around 1970 the shareholders were receiving almost two-thirds of the earnings. However, since then the reinvested portion has leaped ahead from $16 million to $120 million last year, with the result that by 1976 the dividend payments of $45.5 million accounted for only 27 per cent of the earnings.

This is a bit below the average for the major integrated companies, and less than we would like to see; but our recent dividend increases have been all that were allowed under the AIB guidelines, so our shareholders have had to find comfort in their equity in the company's rapidly-growing assets.

Reinvestment

Some comments I made at our Annual Meeting would perhaps bear amplification because in the past two weeks statistics have been released by the federal government indicating that during 1976 Canada's major oil companies reinvested in exploration, production and development some $1.6 billion or 52 per cent of their internally-generated cash flows.

We have not yet seen the survey from which these statistics were quoted, but it appears that the 52 per cent figure relates the reinvestment in exploration, development and production, not to the cash flow from these operations, but to the total internally-generated cash flows, including the downstream refining, marketing and chemicals operations as well.

Such a comparison is misleading because it does not take into account the very substantial amounts invested in these other operations, nor does it consider cash requirements for additional working capital, repayment of debt, or for dividends to shareholders, all of which must be met from available cash resources if a company is to stay in business.

GULF OIL CANADA
CAPITAL AND EXPLORATORY SPENDING

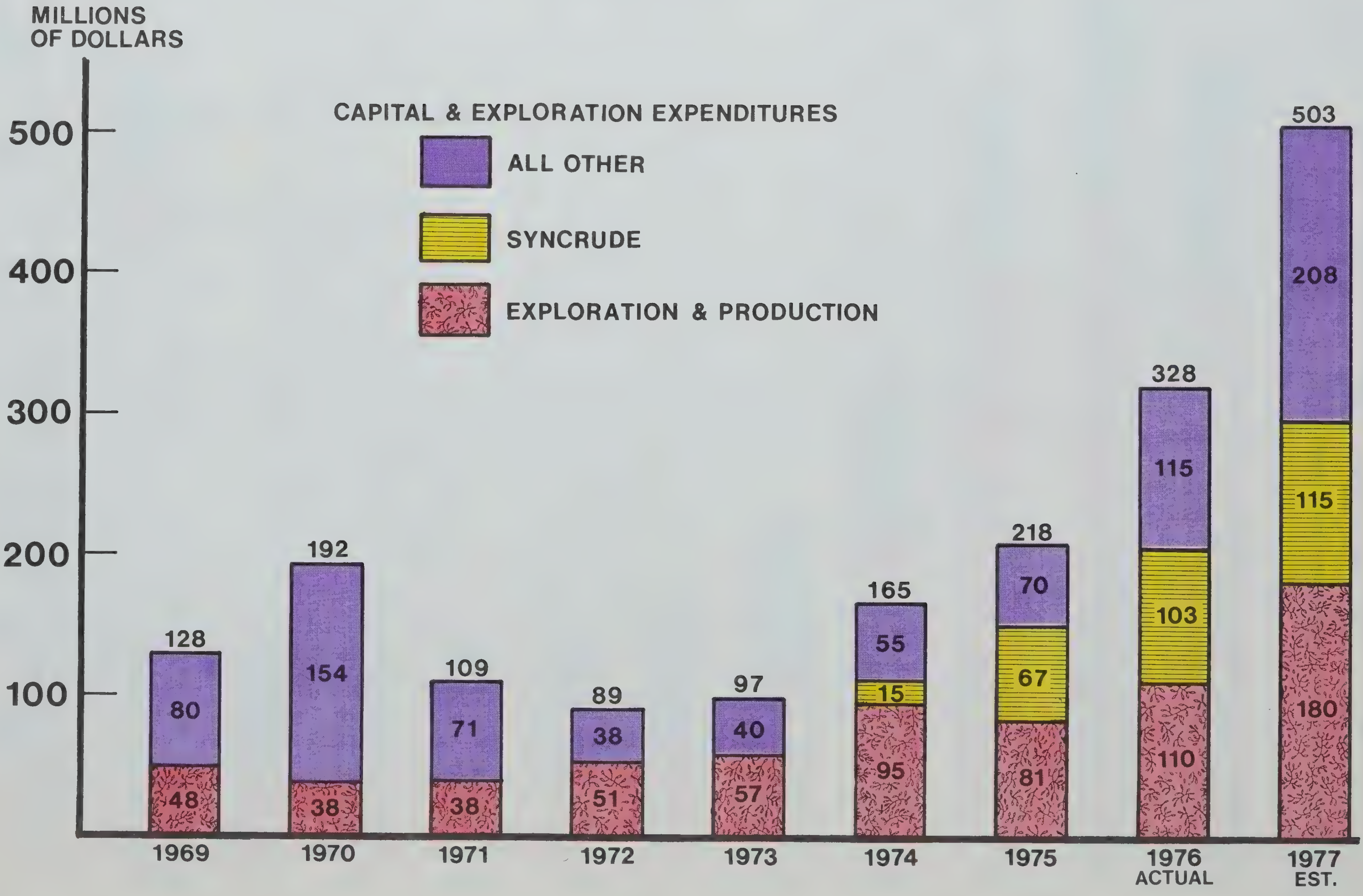


CHART In Gulf Canada's case, as seen on this next chart, total capital and exploratory expenditures in 1976 of $328 million were equivalent to approximately 95 per cent of our internal cash generation before exploration expense.

Of this total of $328 million, about two-thirds was spent on exploration and development, including Syncrude,and one-third on refining, marketing, chemicals and other operations.

Over the past four years our total capital and exploration expenditures have equalled nearly 75 per cent of internal cash generation, with nearly two-thirds going for exploration and development during this period.

As you can see, total expenditures of $503 million are planned for this year, of which almost 60 per cent will be for development of new energy resources, including our participation in the Syncrude project.

Refined Products

Although the return on the capital employed in our Exploration and Production operations is healthy and growing, we continue to be concerned about the low rate of return on our large investment in refining and marketing operations, resulting from the intensely competitive market situation.

There has been some recent firming of prices, but with two new competitive refineries coming on stream in Ontario in the near future, the surplus capacity which has contributed to the recent soft price situation -- particularly in eastern Canada -- is likely to continue for several years.

In Gulf Canada our consolidation of Marketing facilities across the country moves ahead strongly, with steadily improving total gallonage, although the number of our retail outlets has dropped by one-third since 1970, to a total of 3,900 service stations at the end of last year. With Gulf's share of the retail business flowing through fewer outlets, the result is improved viability for the stations and dealers in our present rationalized national network.

Gulf Canada's refining capacity is approximately 375,000 barrels per calendar day, but utilization of this capacity last year averaged only about 78 per cent, due to the fact that our contract to process 40,000 barrels per day for Gulf Oil Corporation at Point Tupper was not renewed because of changes in U.S. regulations affecting imports, and due to operating problems aggravated by extreme weather conditions during the winter at some of our eastern refineries.

I am pleased to report that in recent months we have been successful in lining up some additional business for Point Tupper, with the result that we are currently forecasting over 90 per cent utilization of our company-wide refining capacity this year. Barring any further problems, our refineries should make a significantly improved contribution to overall refined products earnings this year.

The $180 million modernization and expansion of the lubricating oil facilities at our Clarkson refinery is proceeding on budget, on schedule, and at present is approximately 32 per cent complete. It is scheduled to begin start-up next summer, and should be in full production by November 1, 1978.

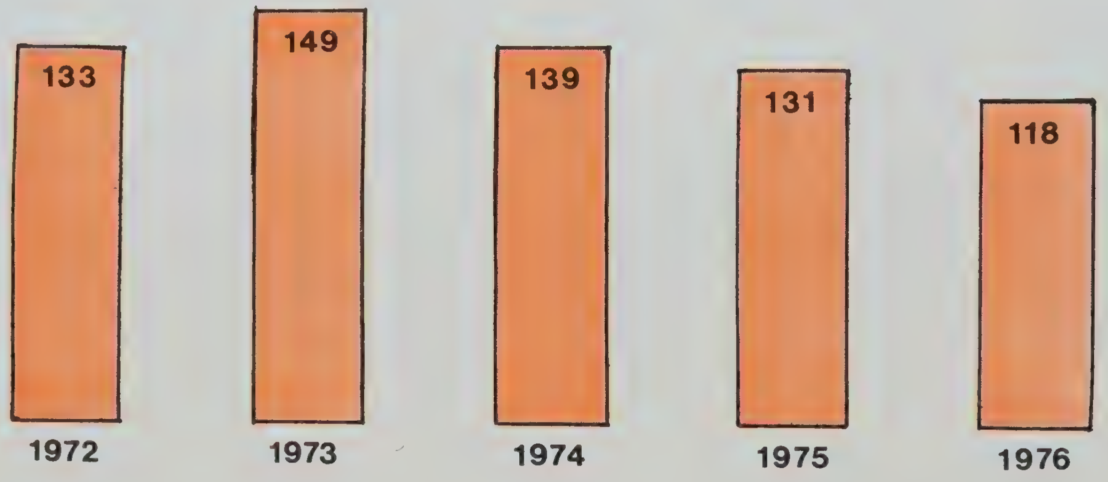
GULF OIL CANADA

GROSS NATURAL GAS SALES

MILLIONS OF CUBIC FEET PER DAY

GROSS CRUDE & NATURAL GAS LIQUIDS

PRODUCTION IN THOUSANDS OF BARRELS PER DAY



Chemicals

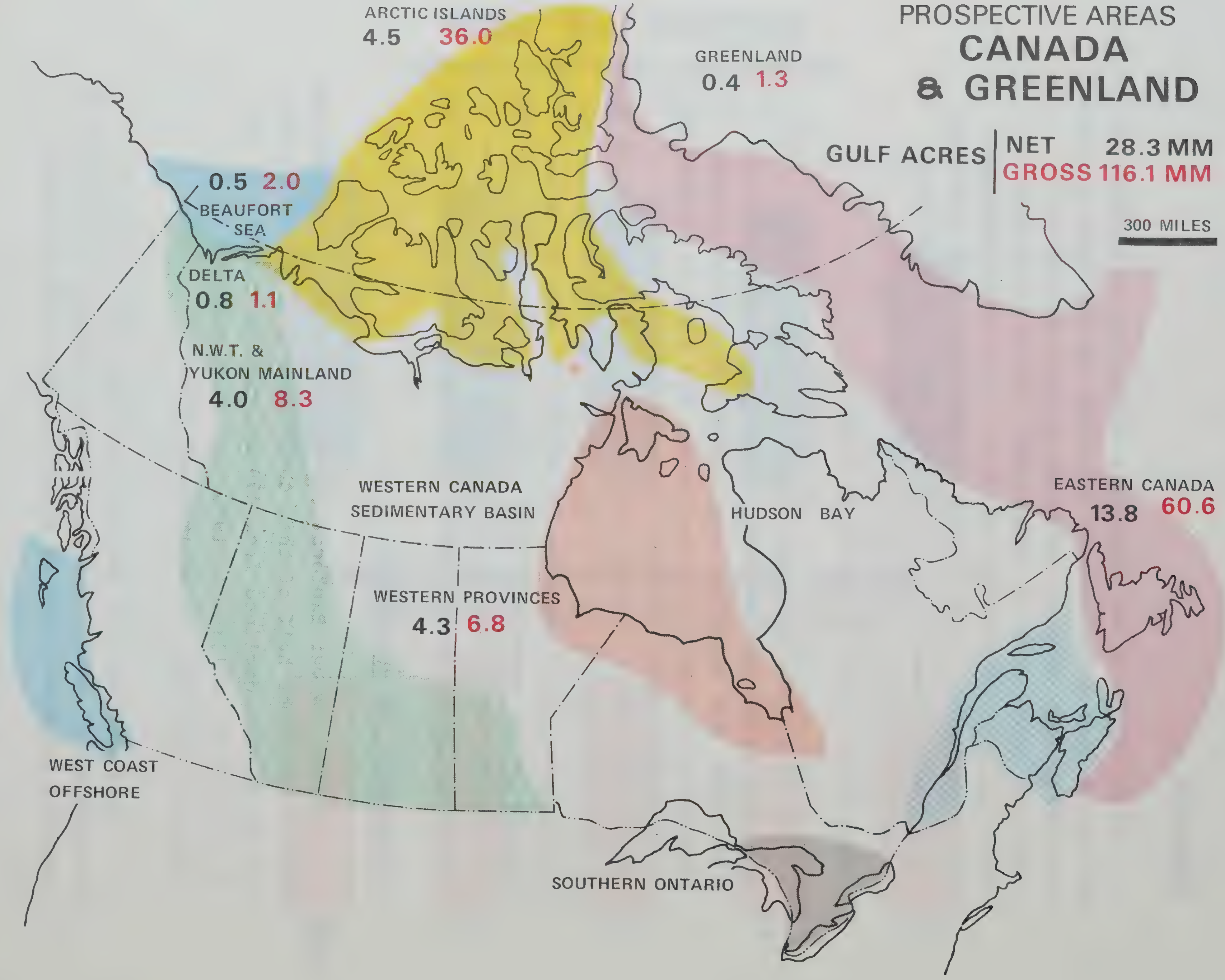
With regard to our Chemicals operations in Quebec, you are aware that in January we announced our decision to shut down early next year our outmoded calcium carbide and acetylene black plant at Shawinigan. Although we made a small profit at Shawinigan in 1976, out studies indicated that with the coming on stream of new high-volume acetylene black plants elsewhere in the world, employing the latest low-cost technology, the Shawinigan plant would lose its export markets and no longer be viable.

Recently, the Hon. Jean Chretien, Federal Minister of Industry, Trade and Commerce, whose constituency includes Shawinigan, has suggested that studies by his department indicate a possible increased market for calcium carbide in the Canadian steel industry. On the basis of this information, we are making an intensive re-examination of the situation to determine when and if this market is likely to materialize, and whether we can afford to keep the plant running in the meantime. But we have already emphasized that the outlook would have to be pretty positive and concrete before we could consider modification of our shutdown plans.

EXPLORATION AND PRODUCTION

CHART Turning to our Exploration and Production operations, we see on the upper half of this chart that Gulf Canada's gross gas sales have declined from 499 million cubic feet per day in 1972 to 440 million in 1976, although revenues have improved each year due to improved prices.

This year we will have some new gas connections at Berland River, Bellis and Calling Lake as well as projects to maintain deliverability at Westerose South and Strachan.


PROSPECTIVE AREAS
CANADA
& GREENLAND
GULF ACRES
NET 28.3 MM
GROSS 116.1 MM
300 MILES
ARCTIC ISLANDS
4.5 36.0
GREENLAND
0.4 1.3
0.5 2.0
BEAUFORT SEA
DELTA
0.8 1.1
N.W.T. &
YUKON MAINLAND
4.0 8.3
WESTERN CANADA
SEDIMENTARY BASIN
HUDSON BAY
EASTERN CANADA
13.8 60.6
WESTERN PROVINCES
4.3 6.8
WEST COAST
OFFSHORE
SOUTHERN ONTARIO

Nevertheless, our gas production this year is expected to be slightly below the 1976 level due to flat demand and the short-term "bubble" of shallow gas reserves under deliverability contracts in Western Canada. We expect that these will be absorbed by around 1979, by which time our gas sales volumes should show some improvement.

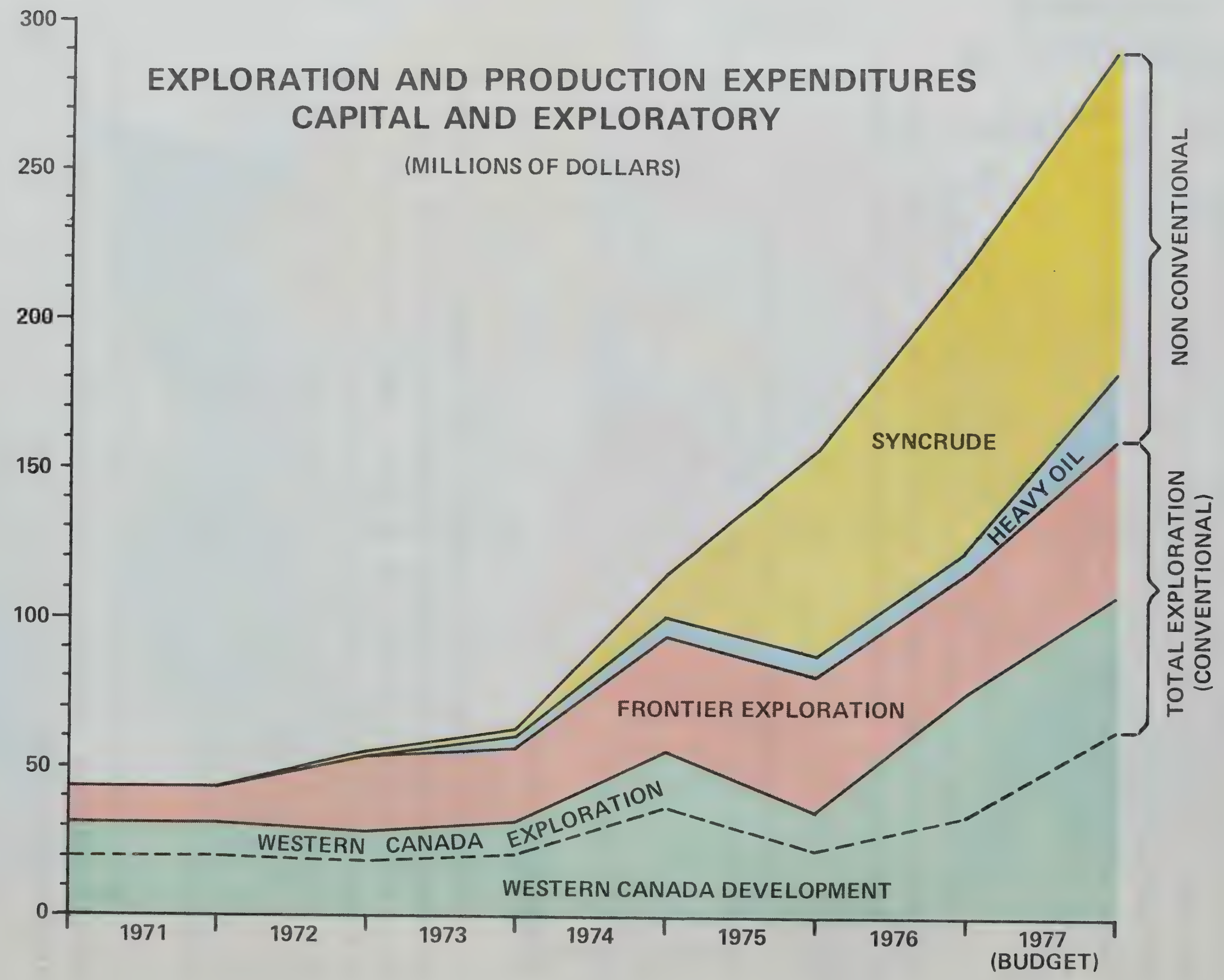
Our gross production of crude oil and natural gas liquids peaked at 149,000 barrels a day in 1973, then declined to 118,000 barrels a day last year, although as in the case of gas, revenues continued to increase due to higher prices.

Despite enhanced recovery projects in several established fields, our volumes of crude oil and natural gas liquids produced and sold will continue to decrease until they are augmented by our share of production from the Syncrude project, commencing in the second half of 1978.

Prospective Areas

MAP This map shows Gulf Canada's land position in the major prospective areas of Canada. We believe that the broad coverage provided by our 116 million acre gross and 28 million acre net land base is one of the best in the industry and a major asset in our exploration future. The fact that our gross acreage is about four times our net position gives us the opportunity to be involved in most areas we consider promising without being over-exposed in any one.

We are well-represented in each of the six main frontier basins and have remained active in Western Canada, where we are currently increasing our position.


EXPLORATION AND PRODUCTION EXPENDITURES
CAPITAL AND EXPLORATORY
(MILLIONS OF DOLLARS)
300
250
200
150
100
50
0
1971
1972
1973
1974
1975
1976
1977
(BUDGET)
SYNCRUDE
HEAVY OIL
FRONTIER EXPLORATION
WESTERN CANADA EXPLORATION
WESTERN CANADA DEVELOPMENT
NON CONVENTIONAL
TOTAL EXPLORATION
(CONVENTIONAL)

<u>Exploration Spending</u>

We are planning to spend $90 million on exploration this year, compared with $81 million last year. The cancellation of exploration plans for this year in the offshore Labrador play because of the jurisdictional dispute between Newfoundland and Ottawa, would have cut $8 million from our 1977 program, but we are considering the reallocation of this money to other areas.

More than half of our total exploration expenditures are scheduled for the western provinces, with the Mackenzie Delta-Beaufort Sea area being our second most active area, followed by the Arctic Islands.

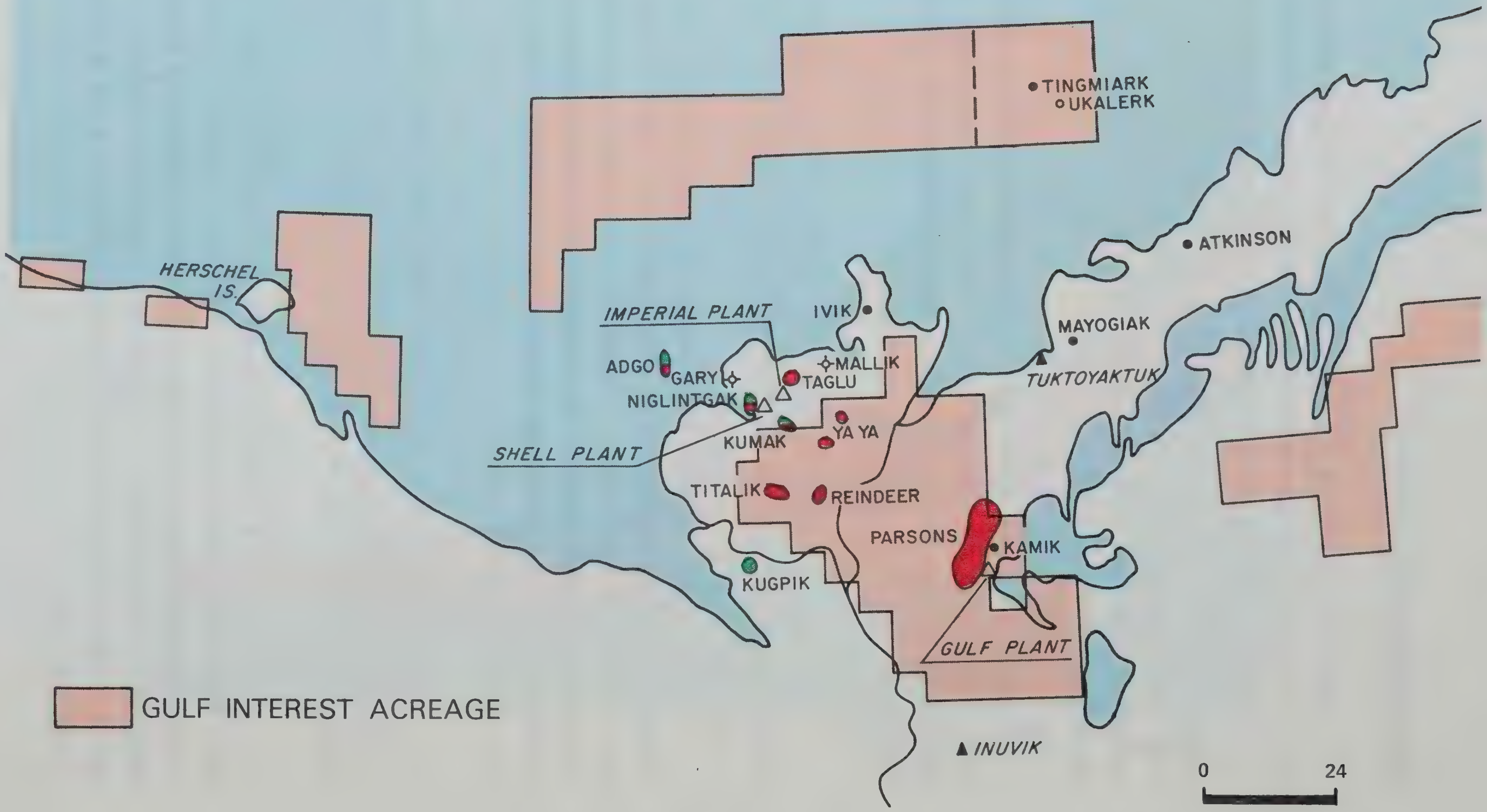
We plan to participate in about 63 gross wells this year, compared to 55 gross wells committed to in 1976.

CHART This chart shows the trend in our capital and exploratory spending over the past six years, plus what we are planning for 1977. Despite our heavy commitment to Syncrude -- $335 million spread over several years -- our regular Exploration and Production spending has been stepped up sharply since 1973.

Apart from the tar sands and heavy oil activities, note that exploration has accounted for about two-thirds of our normal Exploration and Production spending in recent years.

Prior to 1976 our exploration spending was largely in the Mackenzie Delta and off Labrador, where we have spent over $40 million, but since then the emphasis has shifted to Western Canada, due to improved wellhead netbacks which now make exploration for gas in the foothills an attractive proposition.

MACKENZIE DELTA & BEAUFORT SEA



In the first quarter of this year, Gulf Canada participated in a total of 17 wildcat wells, of which 10 were successful. Two of the successful wells were drilled in the Mackenzie Delta, while the other eight discoveries were in Western Canada, where we currently have 11 rigs active.

<u>Mackenzie Delta - Beaufort Sea</u>

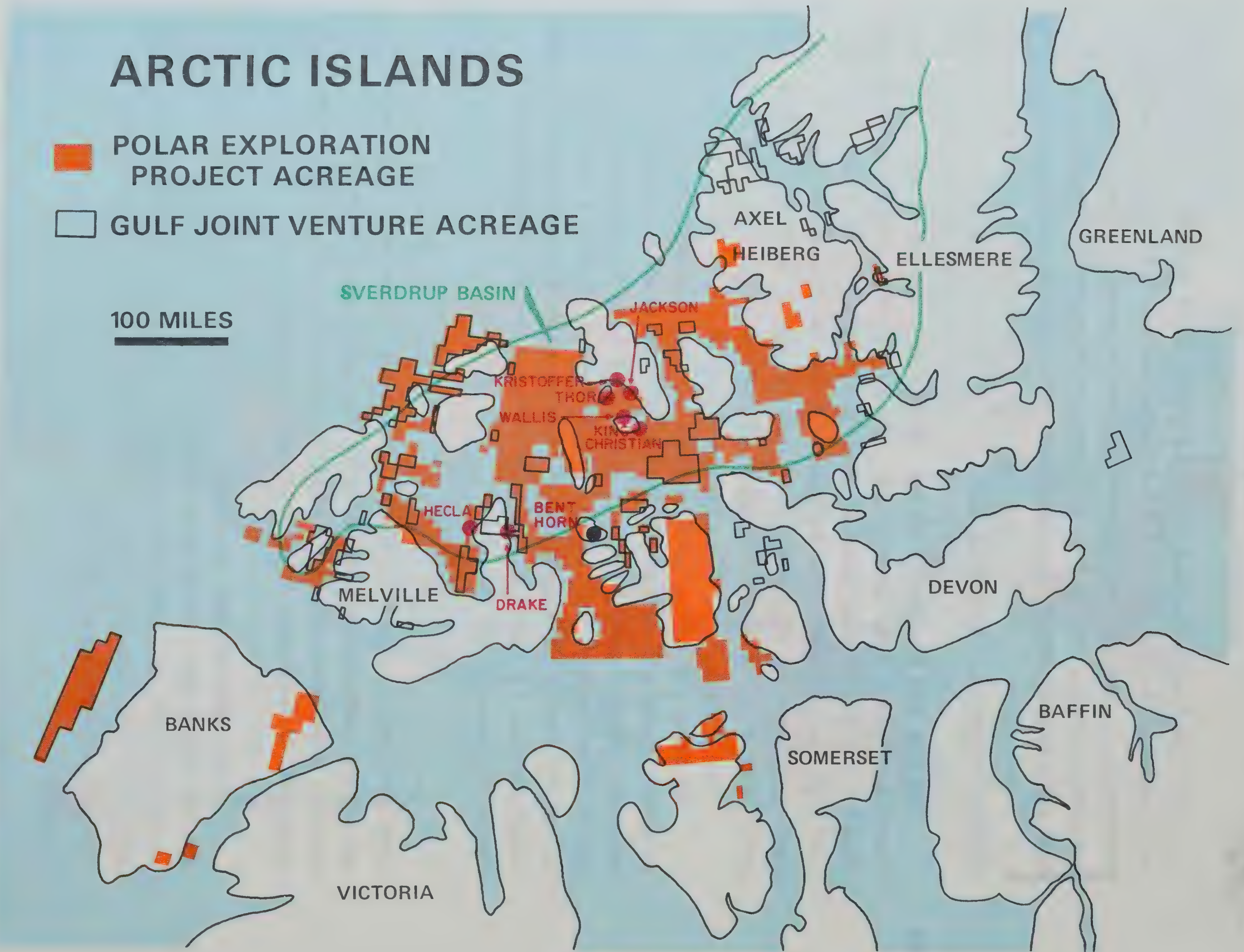
MAP

We see the Mackenzie Delta as the most logical and economical source of additional energy to meet the country's needs in the early to middle 1980's. From 1965 to this winter, the industry has drilled 130 wells in the Mackenzie basin. Of these, 35 have found gas or oil, resulting in the discovery of 17 separate accumulations.

We have had three rigs exploring and delineating for several years and currently have two rigs active. Together with our 25 per cent partner, Mobil Oil Canada, we have established proven and probable reserves at Parsons Lake and Ya-Ya of over 2 trillion cubic feet of gas, a significant contribution to the 6.5 trillion cubic feet of probable gas found to date in the Delta.

The 1.5 trillion cubic feet of proved reserves at Parsons Lake are sufficient to support the gas processing plant and producing facilities that we plan to build in the Delta, at a cost of approximately $400 million, assuming the Arctic Gas pipeline is approved in Canada and the U.S.

These facilities, to handle 250 million cubic feet per day of sales gas, would also be conditional upon the establishment of acceptable frontier regulations and a price structure for the gas that will enable us to justify making the large investment involved.


ARCTIC ISLANDS
POLAR EXPLORATION PROJECT ACREAGE
GULF JOINT VENTURE ACREAGE
100 MILES
SVERDRUP BASIN
AXEL HEIBERG
ELLESMERE
GREENLAND
JACKSON
KRISTOFFER
THOR
WALLIS
KING CHRISTIAN
HECLA
BENT HORN
DRAKE
MELVILLE
DEVON
BANKS
SOMERSET
BAFFIN
VICTORIA

In the Beaufort Sea, Gulf Canada and Gulf Corporation share equally a 33.69 per cent interest in a 350,000-acre block surrounding the Tingmiark wildcat drilled by ourselves and Dome last summer. That well was suspended and remains to be evaluated. This summer we expect the same group to drill the Ukalerk structure, five miles southeast of Tingmiark.

We feel the geology of the entire Beaufort area represents one of the best prospects for new oil and gas of any region in Canada. However, the development of the basin as a major source of energy for Canada in this century depends on the early establishment of a transportation system; satisfactory land regulations which have been non-existent for seven years; and a fiscal regime to encourage the investment of the major funds that will be needed to develop discoveries.

Arctic Islands

MAP This map shows the Gulf holdings in the Arctic Islands. The blocks outlined in black were held prior to our participation in the Arctic Islands Exploration Group, which is indicated by the colored blocks.

This group, with Panarctic as operator, which also includes Imperial and Petro-Canada, was formed in 1976 to farm in and evaluate the Arctic Islands holdings of Sun and Global Arctic Islands Limited. An estimated $80 million in work commitments will be performed over the next four or five years. Our 25 per cent interest in this group will amount to 2.7 million net acres.


EAST COAST
GREENLAND
BAFFIN
ISLAND
HUDSON
BAY
QUEBEC
WEST
GREENLAND
KANGAMIUT
CABOT
KARLSEFNI
LABRADOR SHELF
SNORRI
HERJOLF
BJARNI
INDIAN HARBOR
GUDRID
CARTIER
FREYDIS
LIEF
VERRAZANO
ATLANTIC
OCEAN
BONAVISTA
CUMBERLAND
FLYING FOAM
DOMINION
ADOLPHUS
GRAND BANKS
BONNITION
NEWFOUNDLAND
P.E.I.
ADVENTURE
NOVA
SCOTIA
PIERRE
MIQUELON
SABLE
ISLAND
350 MILES

Several permits lie within existing field boundaries such as at Hecla, Drake Point and Jackson Bay, and many are located in favorable positions for further field extensions. The Arctic Islands Exploration Group is planning an active drilling program, with most wells to be drilled offshore, using ice platforms.

The principal objective of this group is to establish the threshold volume required by the proposed Polar Gas pipeline from the Arctic Islands, which we see as being required subsequent to the Arctic Gas pipeline in the Western Arctic.

East Coast Offshore

MAP Here we see our extensive East Coast acreage holdings. Along the Labrador shelf, three of the ten wells in which we have participated are indicated gas discoveries.

However, in order to provide viable economics for the area, major accumulations in the neighborhood of one-half billion barrels of oil with large flow rates, or 5 trillion cubic feet of gas as a minimum must be encountered. Capital cost for an oil development on the Labrador shelf is estimated to be $1 billion or more, and $2 billion for gas.

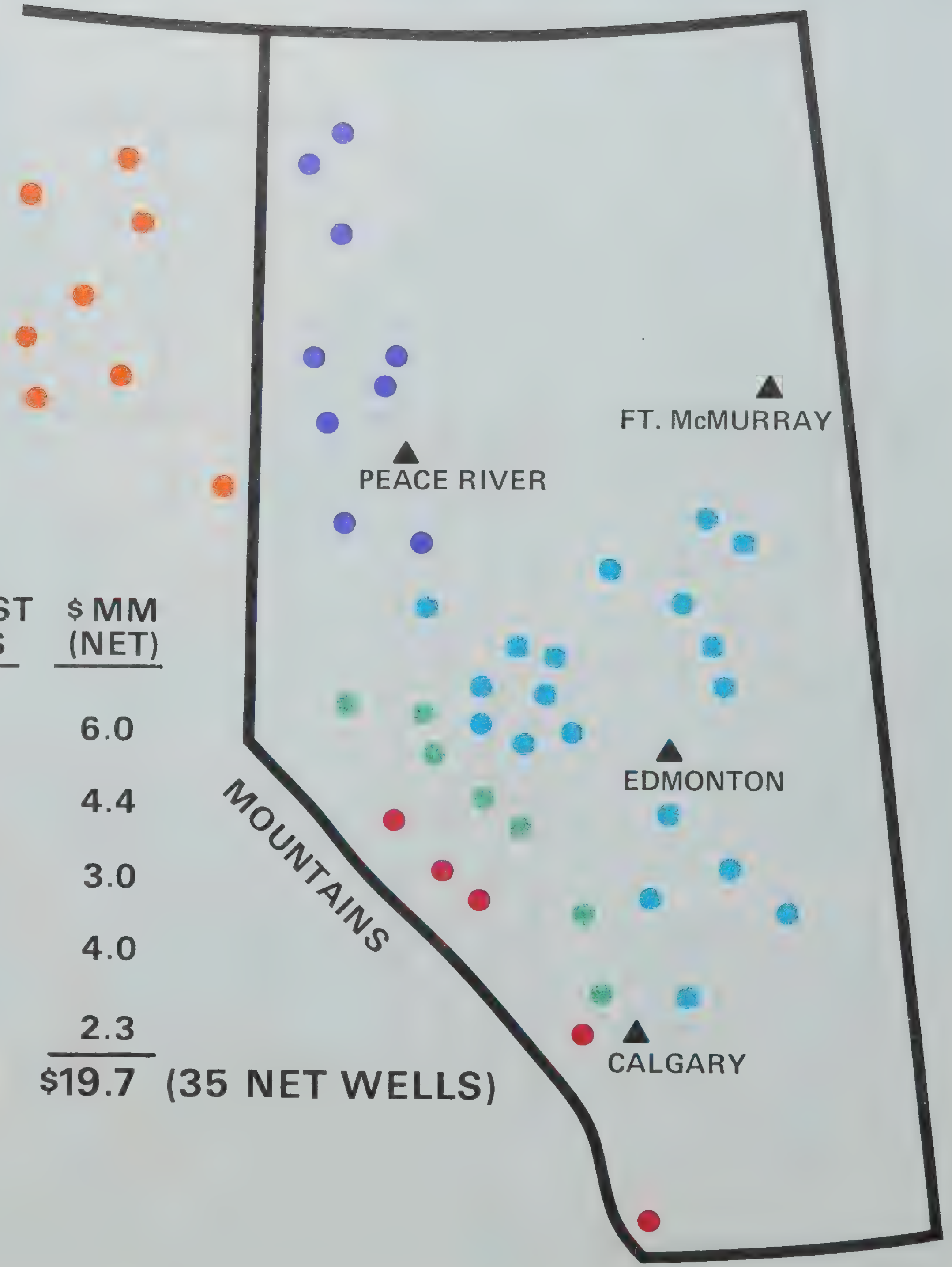
As already mentioned, the jurisdictional dispute between Newfoundland and the federal government has caused both groups with which we are participating off the coast of Labrador to cancel exploration plans for this year. Since we have only federal permits, we cannot proceed until the problem is resolved, and it may have to be settled by the Supreme Court.

WESTERN CANADA EXPLORATION

1977 PROPOSED PROGRAM
$44 MM (49% OF TOTAL BUDGET)

WILDCAT WELLS

AREA	INTEREST WELLS	$ MM (NET)
N.E. BRITISH COLUMBIA	8	6.0
ALBERTA FOOTHILLS	5	4.4
CENTRAL PLAINS	19	3.0
WESTERN PLAINS	7	4.0
N.W. ALBERTA	9	2.3
	48	$19.7 (35 NET WELLS)



Further north our company has an interest in 3.6 million acres of offshore permits on the Baffin shelf, south of Davis Strait. As you know, we are also participating in a group which is exploring four concessions off West Greenland. Following the first well drilled in 1976, we will obtain seismic data this year; with at least two wells to follow later. Competitors may drill three wells this year.

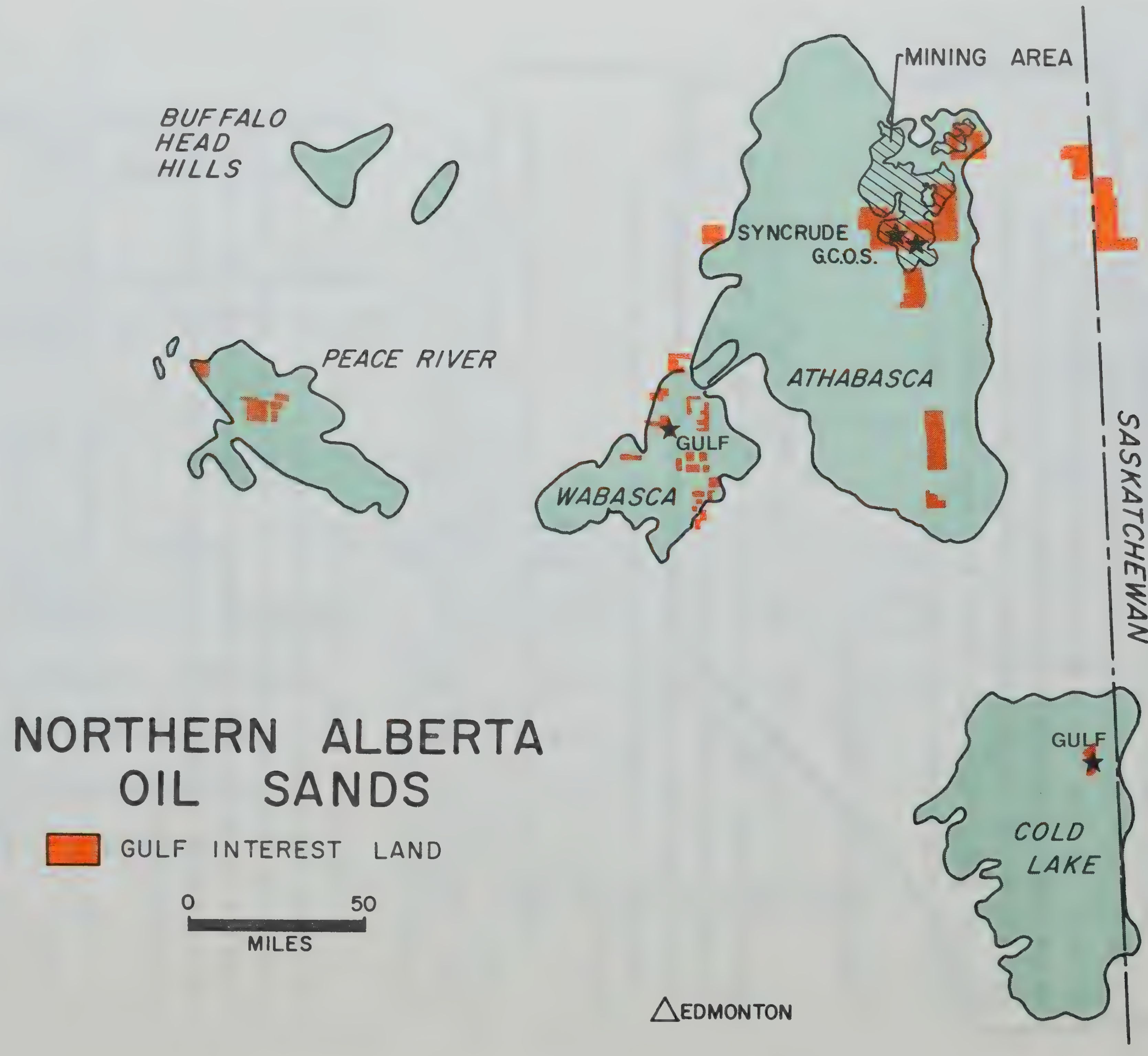
Western Canada Exploration

MAP In 1976 Gulf Canada spent about $40 million exploring in Western Canada and participated in 29 drilling ventures, most of which were deep. Our success ratio on these wildcats was 48 per cent; and we are satisfied they indicate substantial reserves, although this will only be verified by further drilling.

This year we plan to spend $44 million in Western Canada and participate in 48 wells. In the first quarter we drilled eight successful gas wells in Western Canada, including six in Alberta and two in B.C.

We estimate that 30 trillion cubic feet of gas remain to be found in Alberta; and while prospects for oil are not nearly so good, we expect that an additional three billion barrels of economically-recoverable conventional oil remain to be found. Perhaps 10-20 trillion cubic feet of gas could be discovered in B.C.

In view of the recently improved fiscal and regulatory climate in B.C., we are stepping up our exploration in that province where we have acquired 33 exploration permits involving 17 separate prospects.



BUFFALO
HEAD
HILLS
PEACE RIVER
MINING AREA
SYNCRUDE
G.C.O.S.
ATHABASCA
GULF
WABASCA
SASKATCHEWAN
GULF
COLD
LAKE
EDMONTON
NORTHERN ALBERTA
OIL SANDS
GULF INTEREST LAND
0
50
MILES

Heavy Oil

In addition to our conventional hydrocarbon business, Gulf Canada has a number of activities directed towards non-conventional energy resources. Heavy oil is almost

MAP

certain to be an extremely important component of Canada's energy supply beyond the 1980's, offering opportunity for reserve additions far in excess of the conventional reserves in place in Western Canada, provided economical recovery methods can be found. Gulf Canada holds leases in the four main heavy oil areas shown on this map -- Athabasca, Cold Lake, Peace River and Wabasca.

As you know, we hold a 16.75 per cent interest in the 125,000 barrel-a-day Syncrude project in the Athabasca Tar Sands. It is more than 70 per cent complete and is scheduled to deliver its first synthetic crude oil in July of next year. Capacity production is expected to be achieved by the end of 1980.

In the Wabasca area we have spent some $8 million to date and expect to spend that much again in 1977 and 1978. Work has included steam solvent tests and fire-flood ignition. Future activities will concentrate further on fire-flood pilot testing, as we endeavor to develop a commercial process applicable to this deposit.

We are presently constructing a pilot project on our Cold Lake properties at a cost of $5.2 million. Our objective here is to finalize a specific process and develop operating criteria which would lead to commercially producing activities in the mid-1980's.

Finding and development costs for 'in-situ' heavy oil are currently estimated at $18,000 per daily barrel of production, only slightly lower than Syncrude at $20,000 per daily barrel.

Energy Supply Outlook

We are hearing differing stories these days about how much new gas has been found in Western Canada, and whether these reserves are sufficient to defer Canada's need, by the early 1980's, for access to the 6.5 trillion cubic feet of gas that has been discovered in the Mackenzie Delta.

The view of our experts is that most of the new gas in Western Canada is in shallow, small-volume deposits which have created a temporary deliverability surplus. While these reserves may defer the energy crunch for a year or two, there is a growing consensus within the industry that Delta gas will be needed before 1985. Our company estimates that peak demand shortages could occur as early as 1980, and that there will be deliverability problems by 1983.

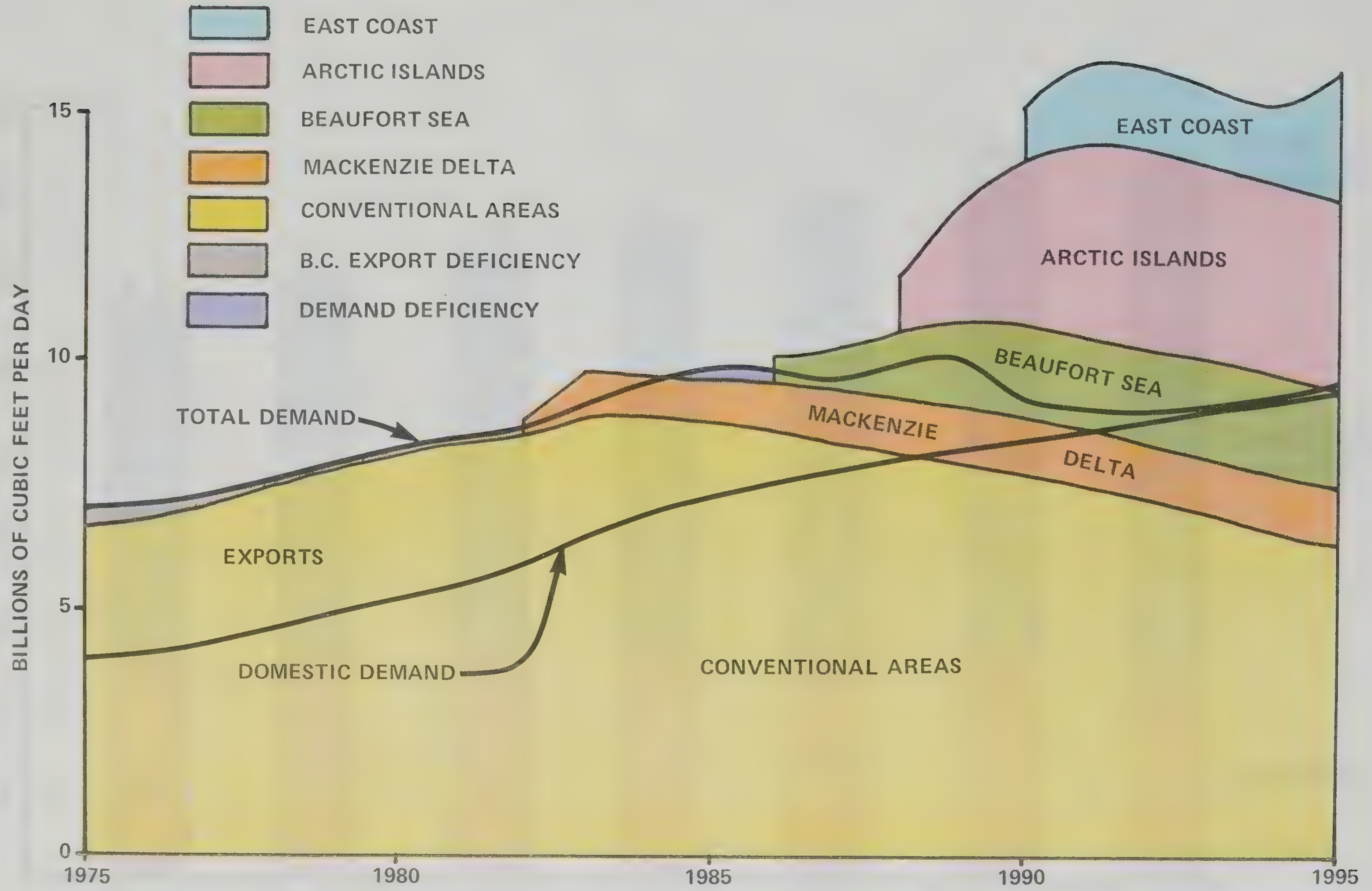
The joint Canada-U.S. Arctic Gas pipeline to carry the Delta gas along with the larger volumes of gas from Alaska would provide Canada with access to this gas by the time it will be required to avoid the shortages forecast for the early to mid-1980's. Hopefully, before further shortages would develop in southern Canada the industry will have found additional reserves in the Beaufort Sea and/or threshold volumes in the Arctic Islands that will be required for construction of the Polar Gas pipeline.

* * *

SUPPLEMENTARY

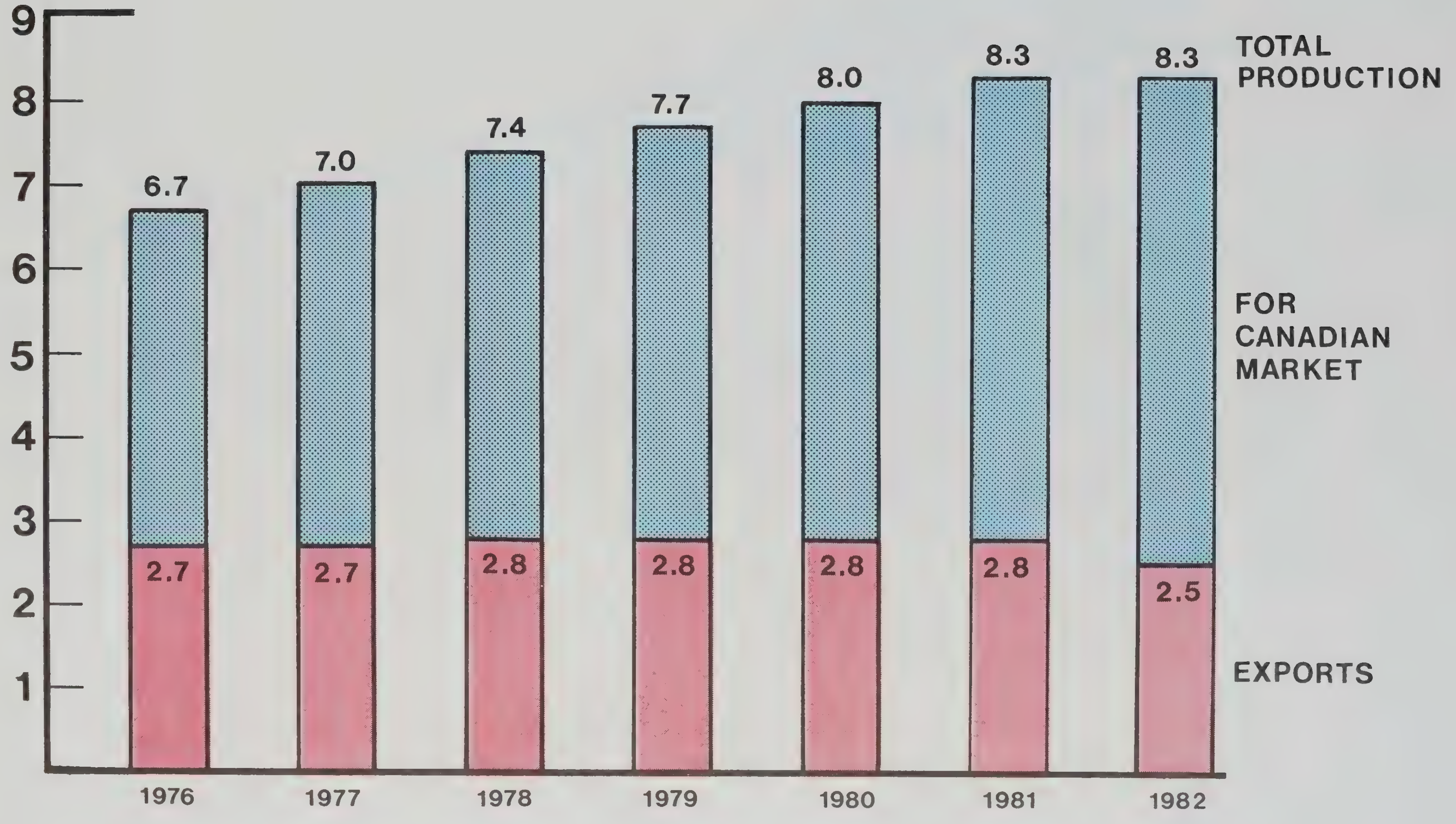
PLATES

CANADIAN NATURAL GAS
SUPPLY—DEMAND
CASE II - FRONTIER GAS



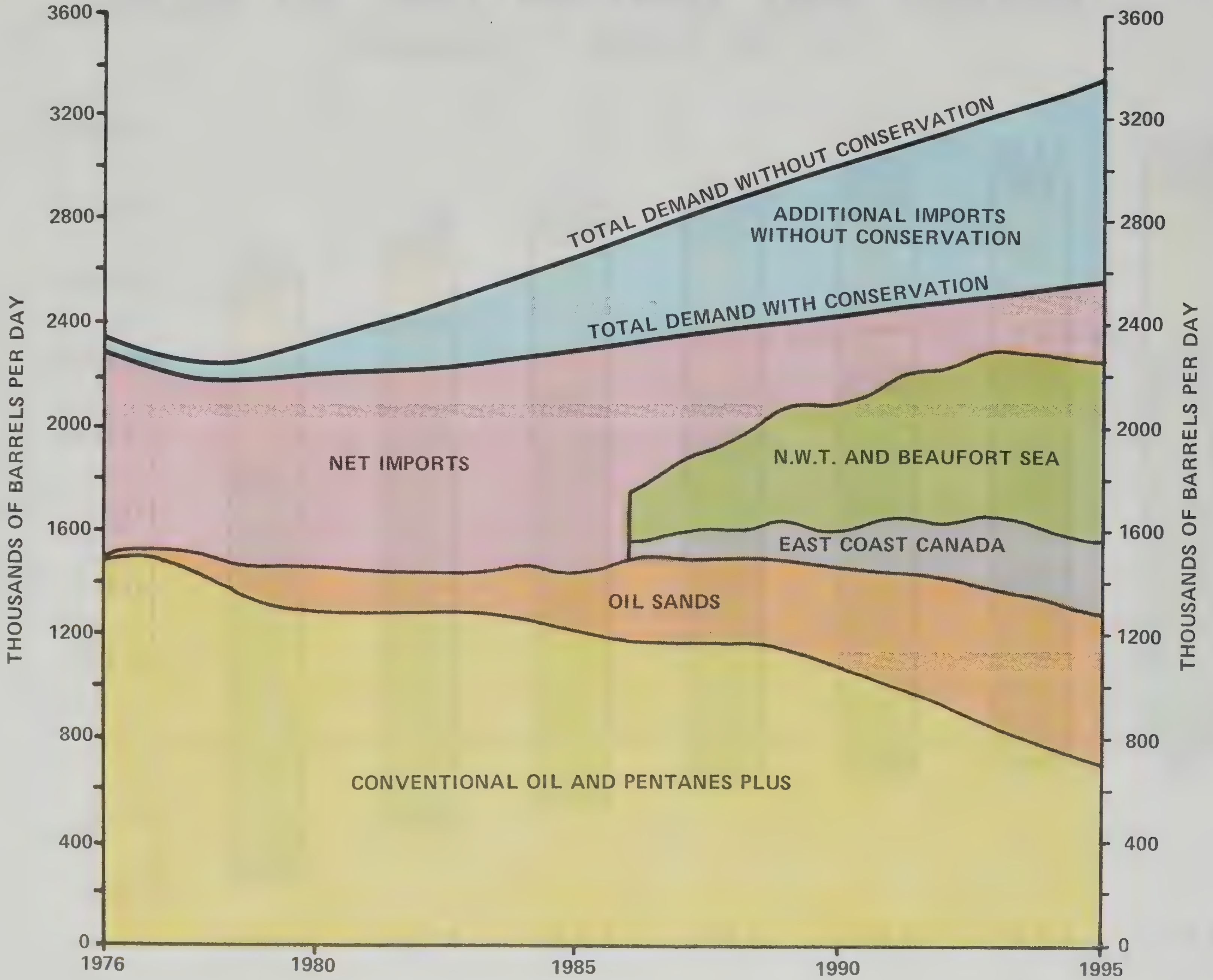
NATURAL GAS PRODUCTION AND EXPORTS

(BILLIONS OF CUBIC FEET PER DAY)



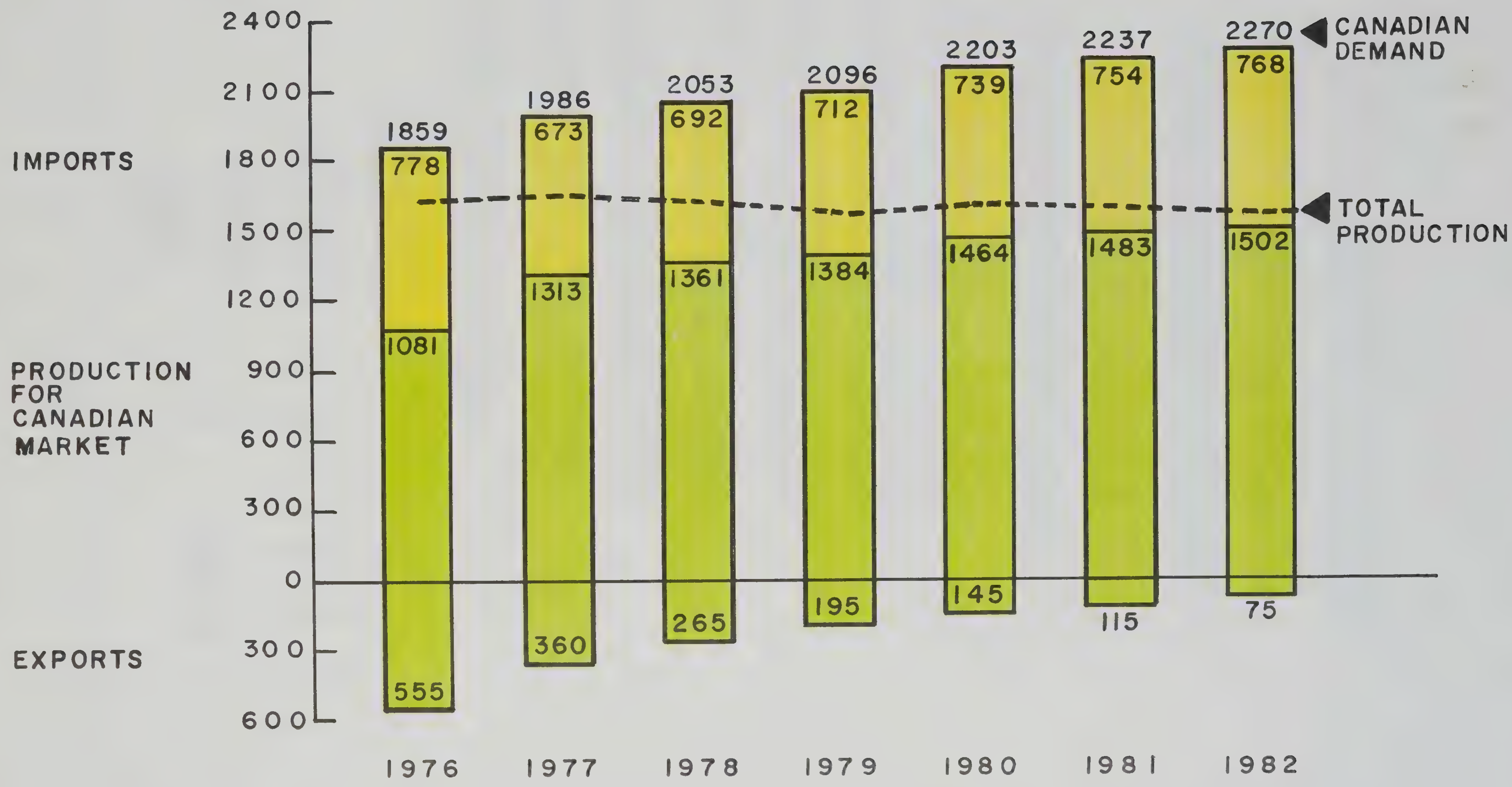
CANADIAN CRUDE OIL & EQUIVALENT

SUPPLY AND DEMAND BALANCE INCLUDING FRONTIER PRODUCTION



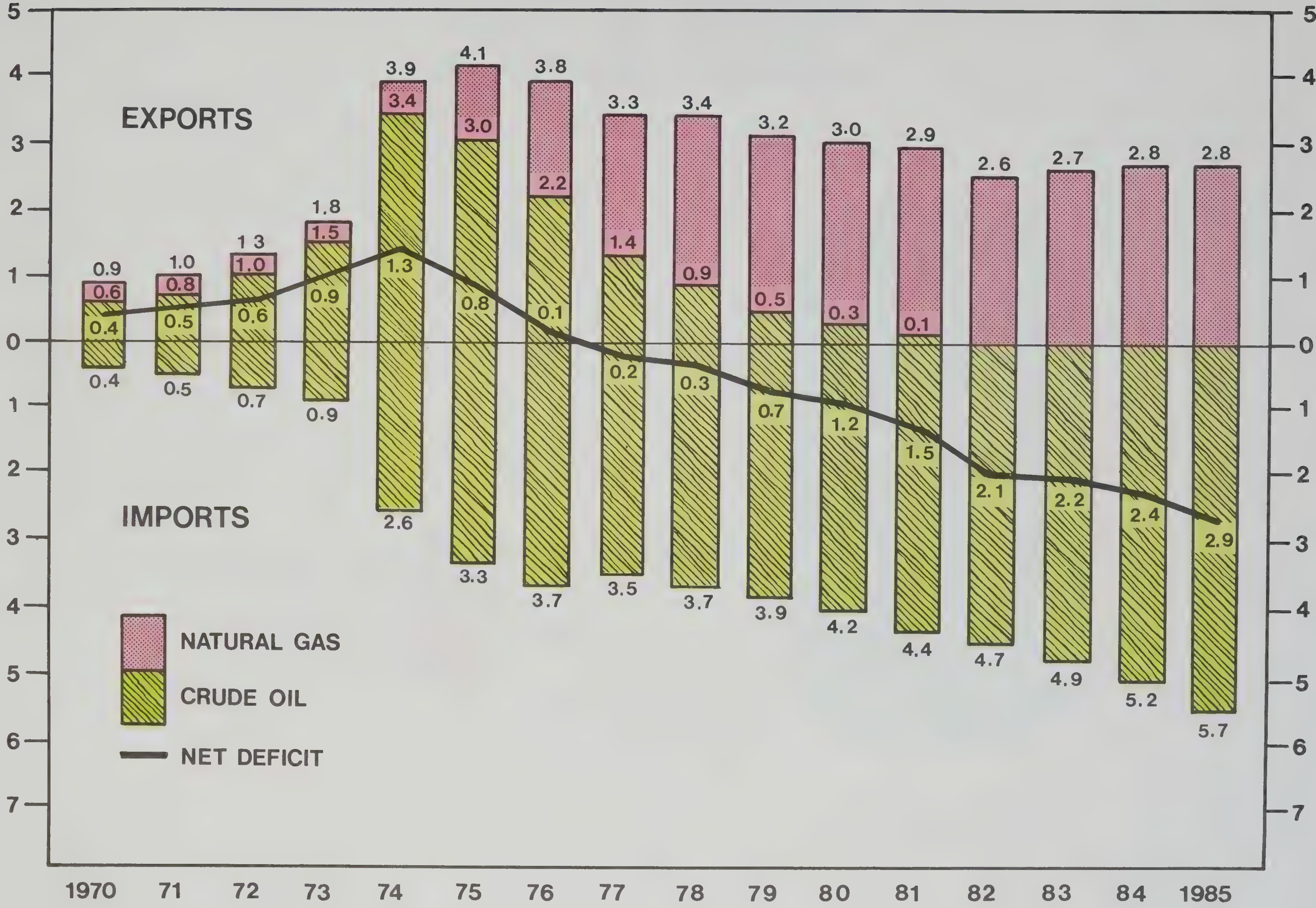
CANADIAN DEMAND, PRODUCTION, EXPORTS AND IMPORTS CRUDE OIL AND NATURAL GAS LIQUIDS

(THOUSANDS OF BARRELS PER DAY)



CANADA'S FOREIGN TRADE IN CRUDE OIL & NATURAL GAS

(BILLIONS OF DOLLARS)



CONVENTIONAL VERSUS HEAVY OIL RESERVES IN PLACE IN WESTERN CANADA